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GSU Economic Forecasting Project Newsletter

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MONTHLY PROJECTIONS FOR OCTOBER 1979

Data Revisions on Employment Statistics and the Federal Reserve Action to Defend the Dollar Indicate a Serious Correction is Needed.

In order to deliver our latest projections based upon a surprising revision of establishment employment and the Federal Reserve dollar defense action, this commentary on the monthly projections will be relatively short. Our normal analysis of changes in various components will be deferred until our next regularly scheduled monthly projection.

Data Revision for Establishment Employment

Along with the surprising announcement that unemployment declined from 6.0% in August to 5.8% in September, the employment situation report for the month of September contained new benchmark revisions for establishment employment. For the month of June, this revision increased estimates of establishment employment by 923,000. Moreover, the initial underreporting of establishment employment was progressively worsening as 1979 continued. Two significant changes were the result of this benchmark revision. First, the gap between employment as measured by the payroll data and employment as measured by the household survey was sharply narrowed. In particular, household employment exceeded establishment employment by 7.8 million in the three quarters ending in the first quarter of 1979. During the second quarter, the gap narrowed to a 7.1 million discrepancy as a result of a sharp plunge in household employment during April. In the summer, the gap widened somewhat to 7.4 million, but remained significantly below the 7.8 million average that prevailed prior to that time. As a result, it appears either that the establishment employment currently is being overstated (employment and transportation equipment continued to rise throughout the summer despite announcements of significant layoffs in the automotive industry) or the household employment soon may spurt. If the latter condition prevails, employment growth may be sufficiently vigorous on the household basis to prevent any substantial upward movement of the unemployment rate until the beginning of 1980. At that time, however, substantial increases in unemployment would be expected.

Second, the index of hours worked was revised upward by 1.3% in June alone. This means that the underlying productivity is even worse than had previously been announced. As a result of this change, the cyclical downturn in productivity appears to be approaching the magnitudes that were recorded early in 1974. While this explains why economic activity has remained surprisingly robust through the summer, it also suggests that any significant erosion of profitability could lead to the same dramatic rate of layoff that occurred for several months in the previous recession. Moreover, the lower rate of productivity provides some explanation of why the underlying inflation rate has continued to accelerate in the latter months of the summer.

Indeed, the upward revision on the index of hours worked raises considerable doubt as to whether a recession has yet begun. According to preliminary data, the index during September reached an all time high. This index never reaches all time highs after recessions have begun. While the beginning of the recession may still be dated from April as a result of the relatively weak performance of industrial production, it should be remembered that hours worked is a component in the industrial production measured. Thus, the upward revision in the index of hours worked could lead to an upward revision in estimates of industrial production. Therefore, the recession may not have begun. On the other hand, the imbalances in the labor markets are so substantial at this time that when the recession does begin, it could be much more severe than most people currently are anticipating.

Implications of Federal Reserve Package

Virtually everyone was anticipating some form of a dollar defense after the IMF meetings adjourned in Belgrade, Yugoslavia. Thus, the weekend actions taken by the Federal Reserve should not have been a surprise. Certainly, a one percentage point increase in the discount rate could have been anticipated. The 8% reserve requirement on incremental liabilities of Euro-dollars, repurchase agreements, and other large term certificates of deposit were somewhat more surprising. Apparently, the marginal cost of funds raised by commercial banks was in those repurchase agreements. Thus, the one percentage point increase in the discount rate and the 8% reserve requirements on all new borrowings meant that the cost of raising new funds was increased by almost two percentage points. Moreover, the Federal Reserve clearly indicated that it wished to establish some control over the growth of bank liabilities that have contributed nearly 50% through the expansion of liquidity during the last year. The third program was to acknowledge that the Federal Reserve no longer would utilize the Federal funds rate as a mechanism to engage in its open market operations. Rather, it would pursue a program of managing the monetary aggregates. Furthermore, the original targets for those aggregates (1½-4% growth in M1 and 7-9% growth in M2) were not altered.

The immediate response to the Federal Reserve moves were substantial increases in short-term interest rates, with certificates of deposit rising more than 2 percentage points along with increases of that magnitude in the Federal Funds rate. If, indeed, the incremental cost of acquiring money at commercial banks were dictated by the repurchase agreements, such an increase was warranted by the actions of the Federal Reserve. Commercial banks immediately increased their prime rates by one percentage point and almost certainly will increase rates again by more than ½ percentage point if current borrowing costs remain at these newly established levels. Initially, sharp increases in short-term interest rates in the United States also caused significant improvement in the value of the dollar. Indeed, according to some measures, the dollar rallied by more than 2 percentage points. This would be exactly equivalent to the expected yield differential created by the actions of the Federal Reserve.

Of course, the package also was designed to reduce inflationary expectations. For some time, some economists had argued that if the Federal Reserve pursued a policy of maintaining control growth over the aggregates, the underlying inflation rate would begin to recede. Of course, the market would have to believe that the Federal Reserve would persist in this policy. This latter assumption remains to be established, although the seven to nothing vote to raise the discount rate by a full percentage point certainly suggests that the will to fight inflation has been rekindled at the Federal Reserve. Nevertheless, the package should have had some marginal effect upon inflationary expectations to the extent that policy decisions impacted those expectations. (According to one school of thought, the rational expectationists, changes in policy should lead to proportionate changes in expectations once that policy is perceived to continue). Under those circumstances, further moderate firming of the dollar should have preceded beyond the initial two percentage point rally. In addition, long-term interest rates, which reflect inflationary expectations, should have remained firm or actually declined as a result of the package. Neither event has occured. While one experiment does not neccessarily disprove a theory, rational expectations need to be seriously reviewed as a foundation for pursuing governmental policies. Certainly, the predicted response to this package according to the rational expectations theory did not occur.

Actually, long-term interest rates increased because the arbitrage potential between short-term and long-term interest rates became so substantial that a failure of the long-term rates to move upward in light of this dramatic movement in short-term rates would have been unprofitable. It will now be necessary for short-term interest rates to begin to decline before any significant rally can develop in long-term debt instruments.

What the markets apparently are beginning to realize is that short-term interest rates finally have exceeded the underlying inflation rate. As a result, a movement towards inventory liquidation, especially in the materials area, is increasingly likely. This will increase the likelihood of a severe economic downturn in the near future. This accounts for the catastrophic drop in stock market prices. (According to catastrophe theory, any substantial correction should be at least 10%. As a result, no support is anticipated before the 800 level. Thus, our expectation of last month that the stock market low will be recorded in October and possibly tested in December appears to be accurate).

We still believe that inflation will move to single digit levels in December and early in 1980 before a new OPEC price increase causes a slight retreat towards double digit levels in the spring of that year. After that time, movements towards single digit levels should become much more pronounced. In addition, the recession should be relatively sharp, leading to the possibility of inventory liquidations. Under these circumstances, interest rates should begin to fall from their peaks before the end of 1979. Some rally potential in long-term bonds is possible by that time.

Profile of GNP

	%Change 1979-2	%Change 1979-3	%Change 1979-4	%Change 1980-1	%Change 1980-2	%Change 1980-3
Real Economic Activity	-2.3	+1.6	-3.3	-5.7	-2.6	+2.4
Price Deflator	9.3	9.6	10.6	8.7	8.3	8.7

Monthly Highlights

September 1979

Personal income, +0.9%; wage and salary earnings, +0.8%; industrial production, +0.3%; manufacturing inventories, +1.2%; business inventories, +1.3%; durable goods orders, +0.9%; nondefense capital goods orders, +2.7%; housing starts, +1.6%; housing permits, -6.7%; construction expenditures, -1.1%; CPI, +1.2%; merchandise trade balance, -2.54 billion; leading indicators, -0.3%.

October 1979

Hours, worked, -0.1%; unemployment rate, 5.9%; hourly earnings index, +0.9%; personal income, +0.6%; wage and salary earnings, +0.8%; consumer credit, +2.8 billion; auto sales, 10.4 million, retail sales, +0.1%; industrial production, -0.1%; manufacturing inventory, +0.1%; business inventories, +1.1%; durable goods orders, -3.1%; orders for nondefense capital goods, -6.7%; housing starts, -4.7% building permits, -2.1%; construction expenditures, -0.1%; CPI, +1.2%; PPI finished goods, +0.9%; agricultural prices, +1.0%; merchandise trade balance, -3.09 billion; leading indicators, -0.8%; M1, 7.0% annual rate; M2, 5.4% annual rate.

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Employment		Unemployment Rate		Hourly Earnings Index	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
May, 1979	88539	89398	123.9	125.4	96318	96318	5.8	5.8	227.4	227.5
June	88709	89626	124.1	125.7	96754	96754	5.6	5.6	228.6	229.0
July	88753	89713	124.1	125.7	97210	97210	5.7	5.7	230.3	230.9
August	88773	89718	123.8	125.4	97369	96900	5.8	6.0	231.7	232.2
September	88709	89853	122.8	125.8	97369	97513	6.0	5.8	232.8	233.7
October	88526	89942	121.9	125.7	97351	97692	6.1	5.8	234.8	235.8
November	88529	89965	122.2	125.4	97335	97765	6.2	5.9	236.9	237.3
December	88715	89879	123.2	125.0	97334	97705	6.3	6.0	239.0	239.4
Januray	99712	89743	123.3	124.3	97355	97609	6.4	6.1	240.2	240.7
February	88720	89625	123.5	123.4	97346	97513	6.5	6.3	241.1	241.8
March	88731	89514	123.6	122.4	97376	97394	6.6	6.5	241.5	242.4
April	88749	89429	123.8	121.9	97395	97302	6.7	6.8	243.1	244.0
May	88766	89402	124.1	121.7	97428	97246	6.8	6.9	245.3	245.6
June	88798	89577	124.3	121.8	97578	97358	6.8	7.0	247.4	247.5
July	88886	89549	124.5	122.0	97726	97382	6.8	7.1	249.5	249.8
August, 1980	88977	89603	124.7	122.3	97812	97439	6.8	7.2	251.6	251.8

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
May, 1979	1.894	1.892	1.212	1.211	85.2	82.3
June	1.903	1.905	1.218	1.221	96.1	88.8
July	1.928	1.930	1.227	1.230	84.3	85.9
August	1.942	1.938	1.235	1.233	81.3	80.2
September	1.949	1.955	1.237	1.243	86.9	82.5
October	1.960	1.969	1.245	1.257	79.5	81.2
November	1.977	1.979	1.253	1.258	84.4	78.9
December	2.006	1.991	1.277	1.265	95.0	81.4
January	2.026	2.000	1.283	1.266	103.7	77.3
February	2.035	2.010	1.289	1.267	97.8	82.1
March	2.045	2.014	1.295	1.265	84.1	74.5
April	2.061	2.024	1.303	1.269	84.2	72.3
May	2.078	2.039	1.313	1.277	85.2	73.7
June	2.096	2.058	1.323	1.290	91.9	76.7
July	2.126	2.100	1.329	1.304	105.3	96.8
August, 1980	1.246	2.120	1.342	1.318	112.8	96.0

Fore. = August Forecast
C.E. = Current Expectations

RETAIL SALES

	Retail Sales		Non Auto Durables		Auto (Million Units)		Nondurable Sales	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
May, 1979	71.53	71.91	10.61	10.62	11.2	11.1	46.76	47.18
June	70.56	71.80	10.76	10.95	9.6	9.4	46.90	47.49
July	72.27	72.28	10.80	11.07	10.7	10.5	47.58	47.89
August	72.97	72.79	10.87	11.26	10.5	11.0	47.99	48.16
September	72.56	73.13	10.81	11.40	9.9	10.8	48.35	48.60
October	72.69	73.19	10.80	11.53	9.6	10.4	48.89	48.94
November	72.94	73.54	10.84	11.62	9.3	10.2	49.13	49.39
Deeember	73.60	73.67	11.06	11.73	9.5	9.9	49.52	49.65
January	73.43	73.61	10.92	11.79	9.5	9.6	49.41	49.81
February	73.98	73.51	10.90	11.73	9.5	9.4	49.93	49.96
March	75.25	73.86	10.99	11.76	9.7	9.3	50.83	50.35
April	75.65	74.13	10.95	11.82	9.9	9.3	50.95	50.51
May	76.18	74.36	10.99	11.85	10.1	9.3	51.14	50.66
June	76.31	74.87	11.04	11.90	10.3	9.4	50.92	50.92
July	76.60	75.47	11.08	11.92	10.2	9.5	51.31	51.35
August, 1980	76.89	76.45	11.13	12.01	10.2	9.7	51.71	51.93

INDUSTRIAL PRODUCTION

	Industrial Production		Capacity Utilization	
	Fore.	C. E.	Fore.	C. E.
May, 1979	152.1	152.4	85.6	86.3
June	151.9	152.4	85.2	86.1
July	151.7	152.6	84.8	86.1
August	151.0	150.9	84.2	84.6
September	149.8	151.4	83.3	84.6
October	148.8	151.2	82.5	84.0
November	148.4	150.8	82.0	83.4
December	149.5	150.4	82.4	82.7
January	149.8	149.7	82.4	81.8
February	150.0	148.9	82.3	80.7
March	149.7	147.9	81.9	79.5
April	149.5	147.5	81.5	78.9
May	149.4	147.3	81.2	78.4
June	149.6	147.4	81.1	78.2
July	149.9	147.6	81.0	78.1
August, 1980	150.2	148.0	81.0	78.2

Fore. = August Forecast
C.E. = Current Expectations

HOUSING

	Housing Starts		Single Family Starts		Housing Permits		Construction Expenditures (Current)		Construction Expenditures (Real)	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
May, 1979	1.830	1.835	1.226	1.226	1.618	1.618	216.8	223.2	114.6	114.6
June	1.935	1.923	1.281	1.2 8	1.647	1.639	223.2	224.7	112.9	114.5
July	1.805	1.791	1.221	1.225	1.551	1.528	221.5	232.7	112.9	117.1
August	1.763	1.783	1.186	1.209	1.516	1.614	223.2	229.2	112.8	113.8
September	1.652	1.812	1.064	1.197	1.413	1.506	225.8	226.6	112.5	111.7
October	1.611	1.727	1.041	1.136	1.365	1.475	226.2	226.4	111.9	110.8
November	1.533	1.653	1.016	1.063	1.293	1.392	226.6	225.4	111.3	109.4
December	1.551	1.569	1.015	1.004	1.299	1.319	225.9	223.3	110.2	107.5
January	1.615	1.521	1.074	0.951	1.340	1.264	227.5	221.2	110.2	105.6
February	1.598	1.476	1.061	0.926	1.326	1.209	228.6	219.4	110.0	103.9
March	1.524	1.412	0.994	0.873	1.284	1.153	228.4	217.9	109.2	102.4
April	1.412	1.425	0.912	0.895	1.196	1.169	228.6	217.9	108.5	101.6
May	1.397	1.477	0.895	0.942	1.169	1.222	228.9	219.2	107.7	101.6
June	1.529	1.529	0.977	0.979	1.284	1.269	231.6	223.0	108.5	102.5
July	1.582	1.553	1.022	1.003	1.316	1.293	233.9	227.0	108.8	103.7
August, 1980	1.643	1.651	1.079	1.091	1.352	1.396	236.2	232.2	109.1	105.2

HOUSING CONTINUED

	Private Non Residential		Public Construction	
	Fore.	C. E.	Fore.	C. E.
May, 1979	78.5	79.3	48.1	48.4
June	80.4	80.7	44.4	45.8
July	81.0	82.9	45.1	51.0
August	81.2	81.6	46.0	48.9
September	81.0	81.5	47.4	47.6
October	82.4	82.1	47.0	47.3
November	83.1	82.5	46.6	47.6
December	85.0	83.4	47.5	48.1
January	85.1	84.0	47.5	48.3
February	85.4	84.5	48.1	48.4
March	86.3	85.1	47.9	48.6
April	86.9	85.8	48.1	48.9
May	87.4	86.3	48.6	49.3
June	87.9	86.9	49.1	49.7
July	88.3	87.4	49.5	50.1
August, 1980	88.7	88.2	49.9	50.4

Fore. = August Forecast
C. E. = Current Expectations

BUSINESS ACTIVITY

	Manufacturers Inventories		Durable Goods Orders		Non-defense Capital Goods Orders		Non-defense Capital Shipments	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
May, 1979	211.3	211.1	78.82	77.03	21.79	20.97	19.44	19.04
June	214.4	214.3	77.24	75.82	23.03	21.75	19.07	18.76
July	216.8	216.9	73.12	72.48	20.55	20.23	19.63	19.39
August	219.2	219.4	73.26	74.57	20.79	21.47	19.89	20.09
September	221.6	222.0	71.14	75.25	19.85	22.06	19.95	20.13
October	223.1	224.2	71.06	72.94	19.82	20.59	19.88	20.39
November	224.3	226.2	71.79	70.83	20.32	19.42	20.43	20.45
December	226.0	228.0	72.43	71.52	21.15	19.92	20.74	20.32
January	227.9	229.8	71.89	71.26	20.86	19.53	20.84	20.40
February	229.2	230.9	71.56	70.49	20.44	19.20	20.62	20.13
March	230.5	231.9	71.39	70.69	20.65	19.39	20.74	20.05
April	231.4	232.6	72.13	69.95	21.05	19.56	20.86	19.92
May	233.2	234.1	72.53	70.49	21.36	20.03	21.02	19.89
June	235.0	235.7	72.91	70.69	21.79	20.20	21.35	19.96
July	236.7	237.3	73.39	70.41	22.03	19.95	21.68	20.02
August, 1980	238.4	238.8	73.91	71.92	22.28	20.43	21.93	20.19

	Business Inventories		Defense Shipments	
	Fore.	C. E.	Fore.	C. E.
May, 1979	402.0	401.8	3.00	2.80
June	407.7	407.6	3.39	2.03
July	411.8	413.8	3.21	2.78
August	416.6	418.9	3.35	3.01
September	421.4	424.2	3.30	3.10
October	423.9	428.8	3.30	3.15
November	427.6	433.0	3.39	3.21
December	431.4	436.0	3.38	3.29
January	434.5	439.0	3.43	3.35
February	438.2	442.4	3.55	3.42
March	441.9	445.5	2.45	3.46
April	444.1	447.9	3.50	3.53
May	448.1	451.9	3.54	3.60
June	452.1	455.6	3.71	3.62
July	456.0	459.9	3.85	3.75
August, 1980	460.0	464.5	3.95	3.77

Fore. = August Forecast
C. E. = Current Expectations

PRICES

	CPI (unadjusted)		PPI Finished Goods		PPI-Industrial Commodities (unadjusted)		Agricultural Prices (unadjusted)		IVA Corp. (annual rate)	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
May, 1979	214.1	214.1	212.4	212.4	231.1	231.1	246	246	33.6	33.6
June	216.6	216.6	213.4	213.4	233.5	233.5	244	244	29.4	29.4
July	218.7	218.9	215.8	215.8	237.2	237.2	246	244	48.8	39.2
August	220.8	221.1	217.7	217.3	239.6	240.4	243	237	46.2	42.2
September	222.6	223.7	219.7	220.4	241.7	243.8	247	241	45.7	44.5
October	224.6	226.4	221.6	223.0	243.5	246.7	252	246	41.5	53.1
November	226.4	228.8	223.5	225.2	245.8	249.1	255	247	38.9	41.3
December	227.6	230.7	224.9	227.0	247.3	251.0	251	245	36.9	39.2
January	229.2	232.7	226.7	228.8	249.6	253.0	256	245	34.3	31.6
February	230.3	234.4	227.9	230.4	251.2	255.0	260	253	32.7	31.2
March	231.4	236.3	229.2	232.3	253.1	257.3	262	258	33.5	27.1
April	233.9	238.2	231.3	234.1	256.2	259.9	266	262	35.6	29.9
May	235.9	240.0	233.4	236.0	258.0	262.2	270	265	36.4	31.1
June	238.1	241.9	236.9	237.6	261.0	264.3	265	264	36.9	29.3
July	240.2	243.7	238.7	239.3	263.1	266.2	267	268	37.0	33.4
August, 1980	242.3	245.4	240.5	241.0	265.2	268.3	264	266	38.2	37.3

MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators		Estimated GNP		Estimated GNP (1972 $)	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
May, 1979	-2480	-2480	141.1	140.2	23301	2331	1419	1421
June	-1900	-1900	140.9	139.8	2344	2357	1415	1428
July	-2025	-1110	140.9	139.1	2360	2383	1422	1434
August	-2210	-2360	140.3	139.1	2373	2390	1417	1426
September	-2435	-2535	139.6	138.7	2376	2411	1409	1425
October	-2713	-3095	138.5	137.6	2388	2432	1406	1425
November	-2615	-2631	138.2	136.9	2402	2439	1405	1419
December	-2432	-2239	138.5	136.5	2420	2433	1407	1405
January	-2615	-2364	138.9	136.2	2445	2453	1413	1408
February	-2812	-2592	139.3	135.5	2460	2451	1413	1395
March	-2739	-2773	139.2	135.3	2474	1447	1414	1384
April	-2695	-2664	139.2	135.8	2489	2466	1414	1386
May	-2665	-2393	139.5	136.4	2506	2479	1414	1384
June	-2699	-2318	139.9	136.9	2531	2507	1419	1390
July	-2643	-2302	140.4	136.9	2548	2527	1419	1392
August, 1980	-2595	-2009	140.9	137.7	2566	2550	1420	1395

Fore. = August Forecast
C. E. = Current Expectations

FINANCIAL MARKETS

	Monetary Base		M1		M2		Federal Funds		T-Bills (6 Mos.)	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
May,1979	145.5	145.5	364.5	364.5	893.8	893.8	10.22	10.22	9.56	9.56
June	146.7	146.6	369.3	369.0	904.1	904.4	10.27	10.27	9.13	9.13
July	147.9	148.0	372.3	372.1	913.6	914.1	10.42	10.42	9.19	9.19
August	148.6	149.4	373.3	374.3	917.6	922.5	10.73	10.88	9.45	9.45
September	149.3	151.0	374.6	377.6	922.2	931.1	10.17	11.33	9.41	10.13
October	150.1	151.9	376.5	379.7	927.9	935.2	9.83	14.15	9.16	12.02
November	150.9	152.3	377.7	380.8	933.8	938.8	9.47	13.75	8.79	11.56
December	151.7	152.9	378.9	382.4	939.7	943.7	9.38	12.62	8.48	10.49
January	152.5	153.5	379.2	384.2	944.6	950.0	9.25	12.21	8.49	10.26
February	153.3	154.2	379.5	386.3	949.9	957.1	9.15	11.46	8.45	9.98
March	154.1	154.7	380.4	387.4	955.5	962.7	9.15	10.93	8.35	9.76
April	155.1	155.2	382.3	388.3	963.7	967.8	9.06	10.52	8.32	9.45
May	156.0	155.6	385.0	389.5	971.5	973.7	8.89	10.21	8.25	9.22
June	156.9	156.0	387.1	390.6	976.9	978.4	8.84	10.05	8.21	9.12
July	157.9	156.7	388.9	392.7	983.7	986.6	8.79	9.89	8.16	8.96
August,1980	158.8	157.5	390.5	395.0	990.6	995.3	8.74	9.85	8.11	8.79

	Aaa (Seasonal)		Municipals		Commercial Paper		90 Day CD's		Prime Rate	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
May,1979	9.51	9.51	6.27	6.27	9.98	9.98	10.13	10.13	11.75	11.75
June	9.32	9.32	6.13	6.13	9.75	9.75	9.99	9.99	11.63	11.63
July	9.21	9.18	6.04	6.13	9.71	9.80	9.80	10.04	11.50	11.63
August	9.20	9.23	6.12	6.20	10.15	10.36	10.33	10.58	11.80	11.88
September	9.01	9.44	6.04	6.52	9.92	11.58	10.05	11.79	11.65	13.13
October	9.06	9.86	6.06	7.00	9.67	13.69	9.75	14.05	11.40	14.55
November	9.13	9.91	6.08	6.93	9.31	13.56	9.46	13.97	11.11	15.65
December	9.09	9.74	6.01	6.72	9.26	12.40	9.30	12.65	10.95	14.36
January	9.01	9.67	5.95	6.62	9.14	12.02	9.15	12.26	10.80	13.92
February	8.84	9.51	5.85	6.47	9.05	11.39	9.05	11.58	10.65	13.24
March	8.73	9.47	5.81	6.39	9.09	10.76	9.11	10.94	10.71	12.54
April	8.75	9.40	5.84	6.30	8.85	10.42	8.87	10.68	10.42	12.26
May	8.80	9.32	5.86	6.20	8.72	10.02	8.69	10.29	10.24	11.78
June	8.76	9.26	5.81	6.11	8.66	9.83	8.63	10.03	10.20	11.56
July	8.65	9.20	5.74	6.07	8.59	9.74	8.55	9.96	10.09	11.44
August,1980	8.59	9.11	5.65	6.10	8.52	9.70	8.47	9.92	9.85	11.35

Fore. = August Forecast
C. E. = Current Expectations

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Georgia State University

MONTHLY PROJECTIONS FOR NOVEMBER

Recession Arrives As Short-Term Interest Rates Begin to Decline

Hours worked remained unchanged during October while industrial production edged up modestly. However, the sharp drop in retail sales activity and the very poor acceptance of 1980 automobiles strongly suggest that a recession has begun. A new monthly series supplied by the government shows that personal outlays grew by less than 0.2 percent in October. Consumer prices reportedly increased by 1.0%, and that slight moderation of inflation occurred solely as a result of technical conditions surrounding the introduction of the 1980 automobiles. In real terms, consumption slumped badly. On the surface, a $7.5 billion increase in personal savings appeared to account for this weakness. However, disposable income during October was enhanced by more than $4 billion as a result of annual payroll changes for federal employees. In addition, rental income changed from a hurricane adjusted $2.4 billion decline in September to a one time $1.9 billion increase in October. Therefore, the entire change in personal saving in October was caused by nonrecurring changes in income.

While the 8% decline in housing starts and 13% decline in housing permits during October will have little effect upon October's construction spending, employment data suggests that real construction expenditures probably declined. Shipments of capital goods increased at 1.6%, well above the October rate of inflation, as a result of a substantial increase in shipments of defense goods. The merchandise trade deficit was expected to improve in October, but the combined positive influences of capital goods and international trade are not sufficient to offset the negative activity in consumer behavior. Thus, increased industrial production during October suggests some involuntary inventory accumulation developed.

With discretionary savings declining by $30 billion (as insurance and pension reserves currently are increasing in excess of total personal savings by that amount); with current housing starts definitely indicating that construction expenditures will shortly decline sharply; with some accumulation of involuntary inventory investments; and with shipments of capital goods currently exceeding new orders, all the conditions necessary for an economic decline are now in place. Moreover, stimulus from the government sector, significant increases in international trade, or further reductions in personal savings are unlikely.

Of course, decreases in economic activity will reduce credit market pressures. The very sensitive short-term interest rates e.g. federal funds, commercial paper, and certificates of deposit all have declined by more than a full percentage point from their early November peaks. Some of this reduction in short term rates reflects nothing more than an adjustment to the substantial reaction of interest rates to the Federal Reserve policy changes on October 6. Some of the easing in short-term rates also may be related to increased expansion of the supply of money in November after a significant slowing during October. However, the major reason for significant easing of credit market pressures appears to be a significant drop that is developing in economic activity during November. Indeed, industrial production may decline as much as a full percentage point during the month.

MONTHLY HIGHLIGHTS

November 1979

Payroll employment, + 78,000; hours worked, -0.2%; unemployment, 6.0%; personal income, +0.7%; disposable income, +0.7%; retail sales, +0.5%; auto sales, 9.5 million; industrial production, -0.9%; housing starts, -4.5%; housing permits, -5.3%; construction expenditures, +0.6%; durable goods orders, -1.2%; orders for nondefense capital goods, -1.0%; business inventories, +0.9%; CPI, +1.2%; PPI, +1.3%; merchandise trade deficit, -$2.58 billion; leading indicators, -0.3%; M1, +6.9%; M2, +9.5%.

COMMENTARY

Employment

Initial unemployment claims suggest that layoffs have not yet developed by the time of the reference week in early November. As a result, payroll employment is expected to continue to advance although goods production and construction employment in particular should experience signficant declines. Because household employment exceeded payroll employment by only 7.1 million during October, some improvement in household employment is anticipated for November. As a result, the unemployment rate is expected to remain unchanged.

According to our latest forecast, payroll employment is expected to drop by 1.0% from the October peak to the July trough. The average work week is expected to shorten by 1.2%. During the mini-recession of 1967, the work week actually declined by more than 2%. Thus, employment may decline at a slightly lesser rate than is anticipated in this forecast. Furthermore, the 2.2% drop in hours worked from peak to trough corresponds to a 2.8% drop in real economic activity. Normally, productivity declines by 1-1.5% during an economic decline. Therefore, employment could remain remarkably robust during any mild downturn.

Personal Income

Two nonrecurring items added nearly 0.4% to the change in personal income during October. First, the annual change in wages for federal employees was reflected in the government component of wages and salaries. Second, deductions in estimated rental income as a result of casualty losses caused by the hurricanes in September are no longer present during October. This would suggest that some slowing in personal income is likely in subsequent months, especially if the index of hours worked begins to decline. However, the hourly earnings index grew at only a 7.1% annual rate between July and October. Some acceleration in this index is now anticipated during the fourth quarter.

The personal income release is containing information on disposable income, personal outlays, and personal savings on a monthly basis for the first time. Those figures correspond surprisingly closely to the estimated values we have been projecting in the Monthly Projections. They clearly show the dramatic slowing in personal savings from $88.3 billion in July to $51.4 billion in September. Even with an increase in personal savings during October, the savings rate is now at a 3.6% annual rate. Liquidations of discretionary financial assets are currently running at a $30 billion annual rate. These unusually low savings rates cannot persist indefinitely, although the current forecast continues to project savings rates that require continued liquidation of discretionary financial assets. Frankly, such a forecast is unlikely. If the savings rate rises to the 5.4% rate recorded during the second quarter and in July, nearly 2 percentage points of further economic decline would develop. Under such circumstances, the economic decline would prove to be the second most severe downturn in the postwar period.

Personal outlays also are contained in the personal income report on a monthly basis. Because of increasing strength in the service sector, the sharp decline in retail sales recorded during October did not result in a decline in personal outlays. However, even with the slowing of personal outlays to less than a 2% annual rate between September and October, personal outlays have grown at a 15.0% annual rate between July and October. Even if the savings rate was not unusually low, such a rate of expansion of personal outlays cannot be sustained.

Retail Sales

Most of the reduction in retail sales was caused by extreme weakness in October sales of automobiles. As mentioned in our September report, as much as 1.3 million sales at annual rates was generated in the summer by significant reductions in the relative price of automobiles. When these price incentives ended in October, a drop below basic sales trends was expected and did occur. However, concern about the oil situation and gas availability is expected to lead to extremely low auto sales in subsequent months. Early November sales levels are running at 9.4 million units. While new dealer incentive programs have been reintroduced, further, and possibly sharp reductions in auto sales are likely.

Durables other than autos slowed for the first time in 1979 during October. However, September expenditures levels were revised upward sharply, especially in the jewelry categories. Certainly, furniture sales should start weakening as a result of the obvious weakness in housing activity. In addition, jewelry sales appear to be vulnerable, as the 13.3% growth in real economic activity during the last year outstripped even the accelerated trend of 7.5% that this category has grown at annual rates since the start of the cycle. Slowing in the rate of increase of gasoline prices and a pause in apparel sales after a very successful back to school retailing effort caused a temporary pause in nondurable sales. Some of the weakness in apparel sales also may have been caused by unusually mild weather during October. As more seasonal weather develops in November and December, some of these sales will return. However, low savings rates clearly suggest that significant growth in nondurables sales is not possible during the next few months.

Industrial Production

Industrial production remains heavily dependent on changes in auto activity. Since production in November is declining sharply in the auto industry, a significant dip in industrial production is all but assured. Further decreases are probable well into the winter months. Because inventories are not significantly excessive, the decline in industrial production is expected to be more modest relative to changes in economic activity than occurred in other postwar recessions. Nevertheless, the peak to trough change in industrial production is close to 5%.

Construction

The 8% decline in housing starts reported for October probably would have been worse if weather conditions were more seasonal. Indeed, the unusually favorable weather for construction activity in some parts of the country may have added as much as 200,000 units to basic housing activity. Also, sharp increases in mortgage financing by insurance companies has significantly increased the desire to build multiple units relative to single family units. However, it is unlikely that apartment activity will continue at the more than 600,000 level that existed in the last two months. If single family activity was stronger than normal as a result of weather conditions and if apartment activity cannot sustain its relatively high level of advance, then housing construction could decline to less than 1.5 million units before the end of this year. If so, greater weakness than currently is anticipated for construction expenditures might develop before the end of this year.

Because of the continuing high level of public construction through the summer, estimates of construction activity in the public sector have been revised upward. However, state and local budgets may not be able to support such activity. Moreover, the significant acceleration in construction activity for private non-residential goods, which is anticipated during the fall, may not materialize. The sector has experienced little growth during the summer months.

Business Activity

Large declines in orders for aircraft and the absence of significant growth in orders for primary metals following a price increase early in October have caused orders for non-defense capital goods to fall below current shipments. Some of this weakness in orders is temporary, but no significant rebound in capital goods orders should be expected until the summer of 1980. This means that shipments of non-defense capital goods will slow sharply in subsequent months. However, rapid acceleration in shipments during the summer suggest that capital expenditures will continue to contribute positively to economic growth during the fourth quarter. Shipments of defense goods have accelerated even more sharply than other capital goods. Thus, a significant increase in defense purchases appears to be developing for the fourth quarter.

The big question in business activity at the current time is the status of business inventories. After growing dramatically in July, business inventories basically stopped growing in September with significant slowing occurring for inventories at retail and wholesale levels. Some involuntary inventory accumulation developed in October, but the current level of inventory stocks is not considered excessive relative to current sales.

Prices

The slowing to 1.0% in the consumer price index during October is less significant than it appears. Although energy prices undoubtedly are slowing their rate of ascent as the June price changes by the OPEC nations are becoming fully expressed in domestic markets, other areas of inflationary pressures remain intense. The important finance component of home ownership is based upon a four month moving average of mortgage rates that prevailed during the first five business days of the month. As a result, the dramatic increase in mortgages that developed after the October 6 change in Federal Reserve policy was not incorporated in financial charges for the October CPI. Because of this lag relationship, the service component of the CPI may be growing by more than 1.2% per month through January of 1980. In addition, prices of new autos after seasonal adjustment declined by 1.5% in October. This occurred because the late introduction date for 1980 models meant that most dealers sold more 1979 than 1980 automobiles during October. In the consumer price index, prices for 1980 model cars are not introduced until they constitute more than 50% of sales. Thus, price changes for 1980 autos were not significantly counted in the October price report. However, the seasonal factor for October anticipated that new model price changes had been incorporated. This means that a significant increase in prices of new automobiles will be recorded in November despite the rebate program currently being used to sell new Chrysler automobiles. This adjustment, combined with our estimates that food prices rose by the largest percentage at the producers' price level in November of any month during 1979, could lead to the largest single monthly increase in the consumer price index at that time. Certainly, any credit market rally that would be developing prior to the announcement of these dramatic price changes would be severely constrained by this new inflationary information.

Miscellaneous

In September, oil prices did not yet fully reflect changes in world markets. Thus, another $0.2 billion per month increase in the oil bill is anticipated for the remainder of 1979. Also, not all the price weakness that developed for grain products in the summer have been reflected in agricultural exports. Particularly, soybean prices had dropped dramatically. Offsetting these forces that would lead to even greater trade deficits than recorded in September is a significant increase in gold sales. Thus, the worst may be over for the trade deficit in 1979, but improvements will be relatively modest.

Financial Markets

Despite the dramatic change in Federal Reserve policy on October 6, the monetary base continued to grow at double-digit rates during the month of October. Much of this expansion in potential reserves was the result of increased borrowing activity at the discount window. Since currency demand actually slowed to a 7.1% rate of growth during the month, a clear sign that the dollar support portion of the Federal Reserve action was working, available reserves rose even more dramatically than the monetary base. However, changes in the incremental reserve requirements for many bank instruments and continued shifting between deposits led to only a 2.6% annual rate of growth in M1. M2 grew at a much more normal 9.0% at annual rates during the month. Indeed, the widening of the growth rates between the two measures of money suggests that shifts in deposits rather than any dramatic movement out of commercial banks were responsible for the reduced growth of monetary aggregates. This suggests that actual Federal Reserve constraints were more temporary than the markets perceived them to be. Thus dramatic increases in short-term rates that occurred in October and early November exceeded underlying market conditions. This strongly suggests that forecasted values are too high for short-term interest rates in the next few months. On the other hand, it also suggests that after a downward adjustment to correct for overreaction in interest rates, both short-term and long-term, from their early November peaks, further improvement in credit market pressures will be mild until the rate of inflation begins to slow below double-digit annual rates. This is not expected to occur until late in 1980.

The widening spread between the rates on municipal bonds and high corporate bonds appears to be caused by sharp increases in the underwriting losses of casuality insurance companies and the prospects for reduced earnings at commercial banks. The municipal markets appear to have over-reacted, especially as additional borrowing by municipalities should be slowing sharply in the next few months. Therefore, a gradual, but steady narrowing of the spread should begin to materialize in the next few months. At the same time, some modest improvement in long term interest rates is anticipated. Actually, improvement from November peaks could exceed a full percentage point by the end of 1980. However, continuing high inflation strongly suggests that corporate bond rates will not return to their levels of late September 1979 until the end of 1980.

Stock Market Conditions

A dramatic slump in equity values following the dramatic decline in prices for long-term debt instruments should not be surprising. Indeed, the stock market fell by a smaller magnitude than the decline in the value of bonds. This is highly unusual, as sharply higher interest rates not only should reduce the value of any earnings stream but also should reduce the likelihood that previously anticipated earnings streams can be realized. Thus, the stock market should have declined by a greater percentage than the long-term bond market. For this reason, it is not yet apparent that the stock market has fully appreciated the potential erosion of earnings that will be developing in 1980. Of course, some industries that are befefitting from energy inflation will continue to gain in value as world prices of oil are increased. Now that interest rates are falling, those companies with low exposure to cyclical loss of earnings will increase in value. For the market as a whole, one more test of the 800 level should be anticipated before any sustained rally can develop. Indeed, annual lows in stock prices still may not have been reached. However, this test should occur very shortly.

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Employment		Unemployment Rate		Hourly Earnings Index	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
July, 1979	89713	89713	125.7	125.7	97210	97210	5.7	5.7	230.9	230.9
August	89762	89762	125.5	125.5	96900	96900	6.0	6.0	232.2	232.2
September	89845	89845	125.9	125.9	97513	97513	5.8	5.8	234.2	234.2
October	90151	90151	125.9	125.9	97293	97293	6.0	6.0	234.9	234.9
November	90229	N.C.	125.7	N.C.	97479	N.C.	6.0	N.C.	237.0	N.C.
December	90148		125.2		97524		6.1		239.7	
January	89983		124.8		97356		6.4		241.3	
February	89702		124.4		97265		6.7		242.8	
March	89505		124.0		97000		6.7		244.3	
April	89463		123.8		96783		6.8		245.9	
May	89419		123.6		96572		7.0		247.4	
June	89354		123.3		96463		7.3		249.1	
July	89296		123.1		96505		7.5		250.5	
August	89315		123.2		96759		7.7		251.9	
Sept., 1980	89358		123.4		96779		7.9		253.4	

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
July, 1979	1.930	1.938	1.230	1.230	88.3	88.3	1.632	1.632
August	1.938	1.946	1.233	1.237	70.1	71.8	1.636	1.640
September	1.955	1.959	1.243	1.248	42.3	51.4	1.643	1.647
October	1.975	1.975	1.257	1.259	64.7	58.9	1.661	1.657
November	1.990	N.C.	1.266	N.C.	63.3	N.C.	1.672	N.C.
December	2.002		1.269		66.4		1.682	
January	2.010		1.274		68.3		1.686	
February	2.021		1.279		66.4		1.694	
March	2.034		1.286		67.8		1.705	
April	2.046		1.292		66.6		1.714	
May	2.058		1.298		63.0		1.723	
June	2.067		1.302		54.3		1.725	
July	2.094		1.307		72.2		1.755	
August	2.108		1.316		68.2		1.764	
Sept., 1980	2.129		1.331		75.6		1.775	

Fore. = November Forecast
C.E. = Current Expectations

RETAIL SALES

	Retail Sales		Non Auto Durables		Auto (Million Units)		Nondurable Sales		Personal Outlays	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
July, 1979	72.37	72.37	11.08	11.08	10.5	10.5	47.90	47.90	1.543	1.543
August	74.62	74.79	11.35	11.36	11.0	11.0	48.79	48.84	1.566	1.568
September	76.26	76.75	11.47	11.63	10.8	10.8	49.82	49.87	1.601	1.595
October	75.19	75.45	11.53	11.67	9.4	9.4	49.67	49.80	1.596	1.598
November	75.57	N.C.	11.62	N.C.	9.5	N.C.	49.80	N.C.	1.609	N.C.
December	75.47		11.60		9.5		49.67		1.616	
January	74.93		11.42		8.5		50.66		1.618	
February	75.15		11.35		8.3		51.15		1.628	
March	75.39		11.40		8.3		51.29		1.638	
April	75.69		11.38		8.4		51.41		1.647	
May	76.32		11.39		8.6		51.68		1.660	
June	76.76		11.37		8.5		52.24		1.671	
July	77.23		11.38		8.3		52.95		1.683	
August	77.78		11.39		8.2		53.59		1.696	
Sept., 1980	77.43		11.32		8.2		53.26		1.699	

INDUSTRIAL PRODUCTION

	Industrial Production		Capacity Utilization	
	Fore.	C. E.	Fore.	C. E.
July, 1979	152.8	152.8	86.1	86.1
August	151.5	151.6	84.8	84.9
September	152.3	152.3	85.1	85.2
October	152.3	152.5	84.8	85.0
November	151.0	N.C.	83.7	N.C.
December	150.3		83.0	
January	149.8		82.5	
February	149.1		81.8	
March	148.1		80.9	
April	147.3		80.2	
May	146.8		79.7	
June	146.3		79.2	
July	145.8		78.7	
August	146.1		78.6	
Sept., 1980	146.4		78.6	

Fore. = November Forecast
C.E. = Current Expectations

PRICES

	CPI (unadjusted)		PPI Finished Goods		PPI-Industrial Commodities (unadjusted)		Agricultural Prices (unadjusted)		IVA Corp. (annual rate)	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
July, 1979	218.9	218.9	215.8	215.8	237.2	237.2	244	244	43.7	47.1
August	221.1	221.1	217.3	217.3	240.4	240.4	237	237	42.3	45.7
September	223.4	223.4	220.4	220.4	243.8	243.8	240	241	45.1	48.5
October	226.1	N.C.	223.7	223.7	248.4	248.5	235	236	49.4	N.C.
November	228.3		225.9	N.C.	251.5	N.C.	237	N.C.	37.6	
December	230.4		227.8		253.7		239		23.5	
January	231.9		229.1		255.3		244		24.5	
February	233.0		230.6		257.1		249		25.1	
March	234.4		232.0		258.6		253		22.2	
April	237.2		234.6		261.2		258		31.5	
May	240.1		237.0		263.9		256		32.9	
June	243.3		240.1		268.4		260		58.4	
July	245.2		242.0		270.6		264		20.9	
August	247.2		244.0		272.9		262		22.4	
Sept., 1980	249.5		246.2		275.2		266		23.5	

MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators		Estimated GNP		Estimated GNP (1972 $)	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
July, 1979	-1108	-1108	140.1	140.1	2377	2381	1432	1434
August	-2357	-2357	140.2	140.2	2387	2394	1428	1433
September	-2833	-2833	141.3	141.3	2412	2410	1433	1436
October	-2541	N.C.	139.9	N.C.	2424	N.C.	1428	N.C.
November	-2575		139.5		2439		1408	
December	-2335		138.7		2453		1425	
January	-2273		138.9		2454		1417	
February	-2447		138.2		2459		1410	
March	-2783		137.7		2468		1406	
April	-2753		137.8		2480		1403	
May	-2552		138.3		2492		1401	
June	-1610		139.0		2502		1397	
July	-1886		139.3		2523		1399	
August	-2148		139.2		2534		1395	
Sept., 1980	-2022		139.7		2549		1393	

Fore. = November Forecast
C.E. = Current Expectations

HOUSING

	Housing Starts		Single Family Starts		Housing Permits		Construction Expenditures (Current)		Construction Expenditures (Real)	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
July, 1979	1.791	1.788	1.225	1.223	1.528	1.528	232.6	232.6	116.9	116.9
August	1.806	1.793	1.240	1.239	1.654	1.654	232.4	232.4	115.1	115.1
September	1.881	1.911	1.249	1.255	1.733	1.775	235.8	235.8	116.2	116.2
October	1.820	1.760	1.206	1.148	1.635	1.550	237.0	N.C.	115.9	N.C.
November	1.738	N.C.	1.103	N.C.	1.548	N.C.	238.4		115.7	
December	1.695		1.094		1.520		236.3		113.8	
January	1.565		0.983		1.360		235.4		112.6	
February	1.502		0.936		1.267		235.6		111.8	
March	1.436		0.853		1.195		234.3		110.4	
April	1.409		0.874		1.177		231.8		108.4	
May	1.381		0.863		1.141		230.6		107.1	
June	1.344		0.834		1.093		230.0		106.1	
July	1.312		0.792		1.067		230.2		105.4	
August	1.286		0.751		1.036		229.6		104.4	
Sept., 1980	1.314		0.773		1.045		230.1		103.9	

HOUSING CONTINUED

	Private Non Residential		Public Construction	
	Fore.	C. E.	Fore.	C. E.
July, 1979	82.9	82.9	50.9	50.9
August	82.8	82.8	49.5	49.5
September	8.25	82.5	52.1	52.1
October	83.1	N.C.	51.9	N.C.
November	83.9		53.0	
December	84.6		52.9	
January	85.1		53.5	
February	85.7		54.1	
March	85.6		54.2	
April	86.0		54.8	
May	86.6		55.3	
June	87.1		54.7	
July	87.5		55.3	
August	87.9		56.9	
Sept., 1980	88.1		56.2	

Fore. = November Forecast
C.E. = Current Expectations

BUSINESS ACTIVITY

	Manufacturers Inventories		Durable Goods Orders		Non-defense Capital Goods Orders		Non-defense Capital Shipments	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
July, 1979	216.9	216.9	72.48	72.48	20.23	20.23	19.39	19.39
August	219.1	219.1	74.39	74.13	21.16	20.74	19.94	20.01
September	220.8	220.8	78.42	78.01	22.41	22.20	20.25	20.12
October	223.1	N.C.	74.02	74.76	20.76	20.12	20.36	20.29
November	224.6		73.14	N.C.	20.55	N.C.	20.45	N.C.
December	226.8		72.56		20.39		20.64	
January	228.3		74.16		21.02		20.67	
February	229.8		72.85		20.53		20.77	
March	230.5		71.73		20.12		20.66	
April	231.8		74.12		20.96		20.85	
May	232.7		75.63		21.42		21.03	
June	233.3		75.89		21.53		21.39	
July	234.1		74.12		21.01		21.26	
August	234.9		75.02		21.32		21.45	
Sept., 1980	236.5		73.61		20.79		21.33	

	Business Inventories		Defense Shipments	
	Fore.	C. E.	Fore.	C. E.
July, 1979	413.8	413.8	2.78	2.78
August	416.9	416.9	2.99	2.99
September	421.3	417.3	2.88	2.93
October	424.9	N.C.	2.94	3.13
November	428.9		3.00	N.C.
December	434.1		3.18	
January	436.0		3.23	
February	438.8		3.26	
March	441.4		3.29	
April	442.8		3.36	
May	444.1		3.45	
June	446.2		3.51	
July	447.9		3.57	
August	449.6		3.66	
Sept., 1980	451.7		3.81	

Fore. = November Forecast
C.E. = Current Expectations

FINANCIAL MARKETS

	Monetary Base		M1		M2		Federal Funds		T-Bills (6 Mos.)	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
July, 1979	148.0	148.0	372.2	372.2	914.1	914.1	10.42	10.42	9.19	9.19
August	149.4	149.4	374.3	374.3	922.5	922.5	10.88	10.88	9.45	9.45
September	151.0	151.0	377.8	377.8	931.9	931.9	11.33	11.33	10.13	10.13
October	152.3	152.5	378.6	378.6	938.6	938.6	13.07	13.07	11.34	11.34
November	153.4	N.C.	381.3	N.C.	944.8	N.C.	15.55	N.C.	12.16	N.C.
December	154.2		383.4		949.8		14.83		11.63	
January	154.6		384.6		956.3		13.62		11.45	
February	154.9		385.6		963.9		12.48		11.29	
March	155.3		387.5		972.1		11.19		11.10	
April	156.2		389.1		979.5		10.85		10.62	
May	157.1		391.5		986.3		10.78		9.83	
June	158.3		393.6		990.7		10.53		9.28	
July	159.0		395.2		996.5		10.28		9.35	
August	159.8		396.0		1001.6		10.09		9.39	
Sept., 1980	160.6		397.1		1008.8		9.71		9.39	

	Aaa (Seasoned)		Municipals		Commercial Paper		90 Day CD's		Prime Rate	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
July, 1979	9.20	9.20	6.13	6.13	9.80	9.80	10.04	10.04	11.63	11.63
August	9.23	9.23	6.20	6.20	10.36	10.36	10.58	10.58	11.88	11.88
September	9.44	9.44	6.52	6.52	11.58	11.58	11.79	11.79	13.13	13.13
October	10.00	10.04	7.08	7.08	13.09	13.09	13.19	13.19	14.65	14.65
November	10.45	N.C.	7.21	N.C.	14.16	N.C.	14.43	N.C.	15.73	N.C.
December	10.11		6.99		13.85		14.09		15.48	
January	10.05		6.97		13.02		13.25		14.76	
February	10.05		6.98		12.16		12.41		13.95	
March	9.99		6.89		10.79		10.95		12.53	
April	9.91		6.82		10.51		10.77		12.29	
May	9.83		6.73		10.37		10.56		12.02	
June	9.72		6.65		10.19		10.39		11.74	
July	9.70		6.62		9.86		10.06		11.50	
August	9.69		6.59		9.54		9.94		11.43	
Sept., 1980	9.68		6.60		9.37		9.65		11.00	

Fore. = November Forecast
C.E. = Current Expectations

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college of business administration
economic forecasting project

Monthly Projections for December

Consumers Exhaust Savings for Christmas But Another 1% Drain of GNP by OPEC Assures a Significant Contraction in 1980

A rebound in consumer outlays of 1.7% in November has delayed the onset of recession for yet another month. However, the savings rate now is hovering near the 3% level, well below the rate of savings generated by pension and insurance reserves. Hours worked rose sharply but industrial production declined. This apparent paradox is caused by the unusually large impact that changes in auto production have upon the index of industrial production. Thus, the recession probably has not yet begun through November. Nevertheless, savings rates cannot decline indefinitely. Indeed, we believe that activity will decline abruptly in December, especially in construction related activity. Moreover, the decline should be sufficient to prevent positive growth in economic activity during the fourth quarter.

As a result of the holiday season, no commentary or highlights are presented with these projections. However, the projections are as complete and analytically sound as those contained in reports for other months. GSU hopes that all our subscribers enjoy their holiday season even if its ending will coincide with the beginning of the first recession of the new decade.

FINANCIAL MARKETS

	Monetary Base		M1		M2		Federal Funds		T-Bills (6 Mos.)	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
July, 1979	148.0	148.0	372.2	372.2	914.1	914.1	10.42	10.42	9.19	9.19
August	149.4	149.4	374.3	374.3	922.5	922.5	10.88	10.88	9.45	9.45
September	151.0	151.0	377.8	377.8	931.9	932.0	11.33	11.33	10.13	10.13
October	152.3	152.5	378.6	378.6	938.6	983.5	13.07	13.07	11.34	11.34
November	153.4	152.7	381.3	378.9	944.8	943.5	15.55	13.65	12.16	11.86
December	154.2	153.8	383.4	380.5	949.8	946.5	14.83	13.89	11.63	12.03
January	154.6	154.5	384.6	383.2	956.3	953.7	13.62	13.12	11.45	11.67
February	154.9	155.0	385.6	384.4	963.9	961.5	12.48	12.43	11.29	11.09
March	155.3	155.4	387.5	385.7	972.1	968.8	11.19	11.66	11.10	10.96
April	156.2	156.1	389.1	387.3	979.5	976.8	10.85	10.99	10.62	10.54
May	157.1	156.7	391.5	388.9	986.3	984.2	10.78	10.75	9.83	10.31
June	158.3	157.5	393.6	391.4	990.7	988.9	10.53	10.88	9.28	10.56
July	159.0	158.2	395.2	393.0	996.5	994.3	10.28	10.72	9.35	10.57
August	159.8	159.0	396.0	395.3	1001.6	1000.2	10.09	10.02	9.39	10.10
September	160.6	159.6	397.1	396.6	1008.8	1007.9	9.71	9.86	9.39	9.63
Oct., 1980	161.4	160.3	398.2	398.3	1013.4	1013.6	9.66	9.62	9.32	9.27

	Aaa (Seasoned)		Municipals		Commercial Paper		90 Day CD's		Prime Rate	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
July, 1979	9.20	9.20	6.13	6.13	9.80	9.80	10.04	10.04	11.63	11.63
August	9.23	9.23	6.20	6.20	10.36	10.36	10.58	10.58	11.88	11.88
September	9.44	9.44	6.52	6.52	11.58	11.58	11.79	11.79	13.13	13.13
October	10.00	10.13	7.08	7.08	13.09	13.09	13.19	13.53	14.65	14.65
November	10.45	10.75	7.21	7.30	14.16	13.62	14.43	14.00	15.73	15.22
December	10.11	10.68	6.99	7.16	13.85	13.21	14.09	13.43	15.48	14.85
January	10.05	10.56	6.97	7.10	13.02	12.67	13.25	13.02	14.76	14.44
February	10.05	10.19	6.98	6.85	12.16	12.03	12.41	12.53	13.95	13.93
March	9.99	9.96	6.89	6.72	10.79	11.29	10.95	11.62	12.53	13.23
April	9.91	10.12	6.82	6.77	10.51	10.53	10.77	10.97	12.29	12.52
May	9.83	10.27	6.73	6.88	10.37	10.29	10.56	10.56	12.02	12.16
June	9.72	10.12	6.65	6.78	10.19	10.42	10.39	10.92	11.74	12.47
July	9.70	9.96	6.62	6.65	9.86	10.31	10.06	10.81	11.50	12.41
August	9.69	9.89	6.59	6.60	9.54	9.76	9.94	10.05	11.43	11.65
September	9.68	9.79	6.60	6.54	9.37	9.57	9.65	9.82	11.00	11.44
Oct., 1980	9.64	9.77	6.55	6.55	9.29	9.35	9.45	9.71	10.75	11.31

Fore. = December Forecast
C.E. = Current Expectation

PRICES

	CPI (unadjusted)		PPI Finished Goods		PPI-Industrial Commodities (unadjusted)		Agricultural Prices (unadjusted)		IVA Corp. (annual rate)	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
July, 1979	218.9	218.9	215.8	216.2	237.2	237.2	244	244	43.7	47.1
August	221.1	221.1	217.3	217.3	240.4	240.3	237	237	42.3	45.7
September	223.4	223.4	220.4	220.4	243.8	243.8	240	241	45.1	48.5
October	226.1	225.4	223.7	223.7	248.4	248.5	235	236	49.4	62.6
November	228.3	227.5	225.9	225.9	251.5	250.2	237	237	37.6	23.4
December	230.4	229.8	227.8	227.5	253.7	252.5	239	238	23.5	34.8
January	231.9	232.0	229.1	229.5	255.3	254.9	244	242	24.5	48.3
February	233.0	234.1	230.6	231.6	257.1	257.4	249	247	25.1	48.8
March	234.4	236.1	232.0	234.2	258.6	260.0	253	250	22.2	49.4
April	237.2	238.0	234.6	236.5	261.2	262.4	258	254	31.5	81.9
May	240.1	240.0	237.0	238.6	263.9	264.6	256	252	32.9	28.8
June	243.3	242.2	240.1	240.7	268.4	267.3	260	257	58.4	37.7
July	245.2	244.3	242.0	243.0	270.6	269.7	264	260	20.9	32.7
August	247.2	246.1	244.0	245.1	272.9	272.3	262	258	22.4	33.7
September	249.5	247.9	246.2	247.0	275.2	274.7	266	263	23.5	30.1
Oct., 1980	251.6	249.8	248.3	248.9	277.1	277.0	260	257	30.3	31.7

MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators		Estimated GNP		Estimated GNP (1972 $)	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
July, 1979	-1108	-1108	140.1	140.1	2377	2381	1432	1434
August	-2357	-2357	140.2	139.8	2387	2395	1428	1434
September	-2833	-2833	141.3	140.1	2412	2412	1433	1432
October	-2541	-2018	139.9	138.8	2424	2433	1428	1432
November	-2575	-2345	139.5	138.1	2439	2458	1408	1436
December	-2335	-2165	138.7	137.8	2453	2465	1425	1431
January	-2273	-2205	138.9	137.4	2454	2472	1417	1424
February	-2447	-2556	138.2	137.6	2459	2473	1410	1416
March	-2783	-2943	137.7	137.9	2468	2479	1406	1409
April	-2753	-3032	137.8	137.4	2480	2491	1403	1405
May	-2552	-2842	138.3	137.1	2492	2501	1401	1401
June	-1610	-2063	139.0	137.8	2502	2520	1397	1401
July	-1886	-1962	139.3	138.4	2523	2539	1399	1403
August	-2148	-1903	139.2	138.3	2534	2555	1395	1401
September	-2022	-2053	139.7	139.0	2549	2576	1393	1404
Oct., 1980	-2131	-2321	140.2	139.4	2588	2603	1400	1408

Fore. = December Forecast
C.E. = Current Expectations

BUSINESS ACTIVITY

	Manufacturers Inventories		Durable Goods Orders		Non-defense Capital Goods Orders		Non-defense Capital Shipments	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
July, 1979	216.9	216.9	72.48	72.55	20.23	20.23	19.39	19.39
August	219.1	219.1	74.39	74.03	21.16	20.74	19.94	20.01
September	220.8	221.4	78.42	77.56	22.41	21.86	20.25	20.02
October	223.1	223.5	74.02	75.99	20.76	20.98	20.36	19.97
November	224.6	225.4	73.14	74.43	20.55	20.53	20.45	20.25
December	226.8	227.3	72.56	74.02	20.39	20.16	20.64	20.21
January	228.3	229.0	74.16	73.79	21.02	20.38	20.67	20.13
February	229.8	231.1	72.85	73.46	20.53	20.42	20.77	20.29
March	230.5	232.8	71.73	73.62	20.12	20.40	20.66	20.35
April	231.8	234.0	74.12	73.94	20.96	20.73	20.85	20.67
May	232.7	235.3	75.63	75.52	21.42	21.53	21.03	20.83
June	233.3	237.0	75.89	75.06	21.53	21.09	21.39	21.01
July	234.1	238.8	74.12	75.34	21.01	21.14	21.26	21.20
August	234.9	240.1	74.02	77.28	21.32	22.10	21.45	21.43
September	236.5	241.6	73.61	75.49	20.79	21.66	21.33	21.67
Oct., 1980	238.1	243.0	74.46	78.16	21.15	22.49	21.49	21.94

	Business Inventories		Defense Shipments	
	Fore.	C. E.	Fore.	C. E.
July, 1979	413.8	413.8	2.78	2.78
August	416.9	416.9	2.99	2.99
September	421.3	417.3	2.88	2.93
October	424.9	421.6	2.94	3.02
November	428.9	425.0	3.00	3.08
December	434.1	431.3	3.18	3.19
January	436.0	434.4	3.23	3.24
February	438.8	436.9	3.26	3.29
March	441.4	439.4	3.29	3.35
April	442.8	442.5	3.36	3.42
May	444.1	444.9	3.45	3.51
June	446.2	447.1	3.51	3.57
July	447.9	451.3	3.57	3.65
August	449.6	447.6	3.66	3.74
September	451.7	454.2	3.81	3.86
Oct., 1980	453.8	457.7	3.92	3.92

Fore. = December Forecast
C.E. = Current Expectations

HOUSING

	Housing Starts		Single Family Starts		Housing Permits		Construction Expenditures (Current)		Construction Expenditures (Real)	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
July, 1979	1.791	1.788	1.225	1.223	1.528	1.528	232.6	232.6	116.9	116.9
August	1.806	1.793	1.240	1.239	1.654	1.654	232.4	232.4	115.1	115.1
September	1.881	1.921	1.249	1.254	1.733	1.775	235.8	234.6	116.2	115.8
October	1.820	1.762	1.206	1.161	1.635	1.542	237.0	236.0	115.9	115.6
November	1.738	1.518	1.103	0.966	1.548	1.267	238.4	232.6	115.7	113.0
December	1.695	1.413	1.094	0.878	1.520	1.171	236.3	227.0	113.8	109.4
January	1.565	1.358	0.983	0.843	1.360	1.129	235.4	223.4	112.6	106.8
February	1.502	1.297	0.936	0.795	1.267	1.054	235.6	220.8	111.8	104.8
March	1.436	1.362	0.853	0.827	1.195	1.119	234.3	221.1	110.4	104.2
April	1.409	1.361	0.874	0.841	1.177	1.115	231.8	222.5	108.4	104.1
May	1.381	1.341	0.863	0.837	1.141	1.080	230.6	224.7	107.1	104.2
June	1.344	1.329	0.834	0.806	1.093	1.086	230.0	224.5	106.1	103.2
July	1.312	1.311	0.792	0.775	1.067	1.068	230.2	224.6	105.4	102.3
August	1.286	1.298	0.751	0.756	1.036	1.047	229.6	225.6	104.4	102.0
September	1.314	1.343	0.773	0.786	1.045	1.092	230.1	227.5	103.9	102.0
Oct., 1980	1.345	1.379	0.795	0.829	1.063	1.136	230.7	230.3	103.4	102.4

HOUSING CONTINUED

	Private Non Residential		Public Construction	
	Fore.	C. E.	Fore.	C. E.
July, 1979	82.9	82.9	50.9	50.9
August	82.8	82.8	49.5	49.5
September	82.5	82.4	52.1	51.0
October	83.1	84.4	51.9	51.9
November	83.9	84.7	53.0	52.6
December	84.6	85.3	52.9	53.0
January	85.1	85.8	53.5	53.3
February	85.7	86.3	54.1	53.8
March	85.6	86.5	54.2	54.1
April	86.0	86.9	54.8	54.5
May	86.6	87.3	55.3	55.0
June	87.1	87.6	54.7	54.6
July	87.5	88.0	55.3	54.7
August	87.9	88.5	56.9	55.6
September	88.1	89.0	56.2	56.1
Oct., 1980	88.4	89.4	56.6	56.5

Fore. = December Forecast
C.E. = Current Expectations

RETAIL SALES

	Retail Sales		Non Auto Durables		Auto (Million Units)		Nondurable Sales	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
July, 1979	72.37	72.37	11.08	11.08	10.5	10.5	47.90	47.90
August	74.62	74.79	11.35	11.36	11.0	11.0	48.79	48.84
September	76.26	76.93	11.47	11.59	10.8	10.8	49.82	49.96
October	75.19	75.62	11.53	11.48	9.4	9.4	49.67	50.21
November	75.57	76.99	11.62	11.46	9.5	9.5	49.80	51.10
December	75.47	76.43	11.60	11.52	9.5	9.5	49.67	50.38
January	74.93	76.23	11.42	11.53	8.5	9.0	50.66	50.79
February	75.15	76.20	11.35	11.46	8.3	8.7	51.15	51.15
March	75.39	76.00	11.40	11.38	8.3	8.3	51.29	51.51
April	75.69	75.90	11.38	11.29	8.4	8.1	51.41	51.73
May	76.32	75.89	11.39	11.33	8.6	8.0	51.68	51.86
June	76.76	76.18	11.37	11.36	8.5	8.0	52.24	52.17
July	77.23	76.61	11.38	11.41	8.3	8.0	52.95	52.59
August	77.78	77.12	11.39	11.46	8.2	8.1	53.59	52.91
September	77.43	77.86	11.32	11.51	8.2	8.6	53.26	52.76
Oct., 1980	77.95	78.67	11.36	11.62	8.3	8.7	53.53	53.31

INDUSTRIAL PRODUCTION

	Industrial Production		Capacity Utilization	
	Fore.	C. E.	Fore.	C. E.
July, 1979	152.8	152.8	86.1	86.1
August	151.5	151.7	84.8	84.9
September	152.3	152.4	85.1	85.2
October	152.3	152.4	84.8	85.0
November	151.0	151.6	83.7	84.3
December	150.3	151.0	83.0	83.7
January	149.8	150.3	82.5	83.1
February	149.1	149.5	81.8	82.5
March	148.1	148.8	80.9	81.9
April	147.3	148.3	80.2	81.4
May	146.8	148.1	79.7	81.0
June	146.3	147.7	79.2	80.8
July	145.8	148.0	78.7	80.8
August	146.1	148.1	78.6	80.6
September	146.4	148.4	78.6	80.6
Oct., 1980	146.7	148.6	78.7	80.6

Fore. = December Forecast
C.E. = Current Expectations

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Employment		Unemployment Rate		Hourly Earnings Index	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
July, 1979	89713	89713	125.7	125.7	97210	97210	5.7	5.7	230.9	230.9
August	89762	89762	125.5	125.5	96900	96900	6.0	6.0	232.2	232.2
September	89845	89803	125.9	125.9	97513	97513	5.8	5.8	234.2	234.3
October	90151	89967	125.9	125.8	97293	97293	6.0	6.0	234.9	235.0
November	90229	90185	125.7	126.3	97479	97646	6.0	5.8	237.0	236.9
December	90148	90123	125.2	125.8	97524	97673	6.1	6.0	239.7	239.1
January	89983	89956	124.8	125.4	97356	97581	6.4	6.2	241.3	240.8
February	89702	89656	124.4	124.9	97265	97381	6.7	6.4	242.8	242.5
March	89505	89445	124.0	124.4	97000	97188	6.7	6.5	244.3	244.1
April	89463	89395	123.8	124.1	96783	97205	6.8	6.6	245.9	245.9
May	89419	89373	123.6	124.0	96572	97136	7.0	6.7	247.4	247.6
June	89354	89296	123.3	123.8	96463	97038	7.3	6.8	249.1	249.4
July	89296	89316	123.1	124.0	96505	96984	7.5	7.0	250.5	251.0
August	89315	89323	123.2	124.1	96759	96985	7.7	7.3	251.9	252.4
September	89358	89394	123.4	124.4	96779	97037	7.9	7.6	253.4	254.4
Oct., 1980	89428	89457	123.7	124.7	96815	97146	8.0	7.7	254.6	255.5

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
July, 1979	1.930	1.933	1.230	1.229	88.3	88.3	1.632	1.631	1.543	1.543
August	1.938	1.947	1.233	1.226	70.1	71.5	1.636	1.640	1.566	1.569
September	1.955	1.960	1.243	1.248	42.3	51.0	1.643	1.648	1.601	1.597
October	1.975	1.978	1.257	1.257	64.7	62.6	1.661	1.661	1.596	1.599
November	1.990	1.999	1.266	1.270	63.3	52.2	1.672	1.678	1.609	1.626
December	2.002	2.010	1.269	1.272	66.4	60.1	1.682	1.688	1.616	1.628
January	2.010	2.014	1.274	1.275	68.3	56.3	1.686	1.689	1.618	1.633
February	2.021	2.028	1.279	1.281	66.4	59.4	1.694	1.699	1.628	1.640
March	2.034	2.040	1.286	1.287	67.8	64.2	1.705	1.709	1.638	1.645
April	2.046	2.052	1.292	1.293	66.6	66.4	1.714	1.718	1.647	1.652
May	2.058	2.066	1.298	1.301	63.0	69.4	1.723	1.729	1.660	1.660
June	2.067	2.078	1.302	1.307	54.3	61.2	1.725	1.732	1.671	1.671
July	2.094	2.112	1.307	1.317	72.2	84.3	1.755	1.767	1.683	1.683
August	2.108	2.126	1.316	1.326	68.2	80.6	1.764	1.776	1.696	1.696
September	2.129	2.150	1.331	1.344	75.6	78.5	1.775	1.789	1.699	1.711
Oct., 1980	2.145	2.167	1.346	1.360	77.3	82.4	1.794	1.809	1.716	1.727

Fore. = December Forecast
C.E. = Current Expectations

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GSU Economic Forecasting Project Newsletter

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Monthly Projections for January

WHERE IS THE RECESSION?

No recession was apparent in the statistics that measured economic activity during December. Hours worked expanded by 0.5% while employment in goods producing industries grew almost as rapidly as in serivce oriented activities. Mild weather undoubtedly accounts for the continuing strength in construction employment, but weather alone cannot explain the nearly 70% of all industries that recorded increases in employment during December. Strong employment growth means significant gains in personal income, which expanded 1.2% in December. Even with double-digit inflation, positive economic activity can be sustained with this rate of income growth. Of course, consumers clung tenaciously to their 4% real rate of expansion in consumer expenditures, as outlays grew 2.0% in December and retail sales expanded 1.1% according to advanced estimates. (However, the late month surge in auto sales was not reflected in the initial retail sales figures As a result, significant upward revision in those sales may occur when more complete figures are announced with the January report.) The fact that personal savings fell to 2.6% in December still does not seem to faze consumers.

While the modest increase in housing starts during December surprised some analysts, favorable weather rather than favorable economic conditions probably accounted for that gain. Indeed, a large gap of 323,000 housing units between starts and permits developed during the month. Normally, such a gap is eliminated in subsequent months. Moreover, housing permits continue to trend downward, falling 4.7% in December. With sales of single-family housing units at a decade low during the month of November, further weakness in housing activity almost is inevitable.

Despite the estimated 1.4% increase in real economic activity during the fourth quarter, business activity does not appear to be very strong. Defense shipments are rising sharply, up 12.2% in the last five months, and orders also are expanding rapidly. The developing Afghanistan and Iranian situations almost certainly suggest that further significant increase in defense orders and shipments will be forthcoming in the next two years. On the other hand, shipments of nondefense capital goods took an unexpected decline during November primarily as a result of weakness in transportation equipment. The unexpected strength in consumer activitiy also caused some reduction in inventories at wholesale and a very modest increase at retail. Manufacturing inventories, on the other hand, grew somewhat in excess of economic activity during November.

The long anticipated slowing of commodity inflation following the June, 1979, OPEC price increases appears to be at hand. Of course, the December OPEC price increases soon will be reflected in accelerating commodity inflation once again. Thus, the reduction to a 0.8% increase in the Producer's Price Index for finished goods during December may be repeated in January but should not continue much beyond that period. The grain embargo is expected to have only a temporary negative effect upon food prices. Indeed, during the spring, when the prospects of relatively stable grain prices are assessed by meat producers, meat production could decline substantially in order to rebuild the size of herds. If so, meat prices could again move into double-digit territory for a few months in the spring and early summer. With this possible reacceleration of inflation, it now appears that interest rates may challenge, and possibly exceed, the October peaks in March or April of 1980.

In summary, no recessionary tendencies are yet available as a result of the monthly data with the exception of the sharp decreases in the leading indicators during October and November. The savings rate is at unsustainablly low levels, but it is unlikely that consumers will reverse their spending patterns prior to any subsequent changes in economic conditions. Weakness is developing in the construction sector, but rising defense expenditures probably will ensure that activity in the capital goods industry remains positive. Thus, any recessionary trigger will be relatively modest. For this reason, we now expect that the recession probably will be very mild, but we also expect that the impact upon inflation will be virtually nonexistent.

Monthly Highlights
January 1980

Payroll employment, +74,000; hours worked, -0.1%; unemployment, 6.1%; personal income, +0.5%; disposable income, +0.4%; retail sales, +0.1%; auto sales, 10.0 million; industrial production, -0.2%; housing starts, -7.9%; housing permits, -2.9%; construction expenditures, -1.3%; durable goods orders, -0.7%; orders for nondefense capital goods, -1.6%; business inventories, +1.3%; CPI, +0.9%; PPI, +0.7%; merchandise trade deficit, -$2.15 billion; leading indicators, -0.6%; M1, +6.5%; M2, +7.2%.

Profile of GNP

	% Change 1980-1	% Change 1980-2	% Change 1980-3	% Change 1980-4
Change in Real Output	-1.1	-2.5	-0.8	+1.1
Price Deflator	9.3	9.6	8.8	9.6
Nominal GNP	8.2	6.9	7.7	11.0

Technical Note

The Monthly Projections have been completely revised in order to provide a complete systematic analysis of the national economic environment each month. While only two categories, dollar value of auto sales and dollar value of residential construction, have been added to the basic tables, substantial changes have occurred in the process by which the monthly projections are made. Some of the information derived implicitedly from the monthly data include: economy wide measures of productivity, unit labor costs, the proportion of wages in GNP, an index of hours worked, and a residual income term that combines operating profits and the statistical discrepancy. In our effort to develop monthly GNP accounts, we discovered that the volatile inventory and trade sectors led to extremely volatile estimates of GNP. As a result, several arbitrary smoothing devices were instituted in an effort to develop more uniform changes in conditions on a monthly basis. The inventory valuation adjustment is based upon price changes over a three month period to coincide with normal turnover rates for most inventories. Changes in inventory investment apparently are based upon a six month history, although events may indicate that this is too long a period of time to adjust this particular variable. No smoothing device was used for merchandise exports, but the net returns on investments and services abroad were assumed to follow a smooth growth path that is consistent with the quarterly projections. Similar smoothing devices were used for the nondefense portion of federal purchases and the nonconstruction portion of state and local purchases.

Commentary

Fourth Quarter GNP

With one exception, the fourth quarter GNP figures corresponded closely to conditions that were recorded in the monthly data. The exception was in the net exports of goods and services. The merchandise trade deficit for October and November was almost the same as the deficit for July and August. Thus, little change was expected in the trade account. Indeed, quarterly returns from services and investments abroad were rising briskly. Estimates by the Treasury that the current account would move into a sharp positive position partially depended upon a continuation of that upward rise. According to the preliminary GNP estimates, not only has that upward trend not continued, but it has actually been reversed in the fourth quarter. Moreover, early estimates must be suggesting that the merchandise trade deficit for December is very large (above $3.0 billion). If the subsequent reports do not significantly alter these estimates, the likelihood of positive gains on the current account during 1980 must be subject ot considerable doubt.

Aside from the trade figures, the fourth quarter economy appeared to be remarkably in balance. Goods production increased more than $2.6 billion while nonfarm inventories expanded less than $0.3 billion. Federal purchases of goods and services rose more than 13% after adjustment for inflation, partially because gold sales were reduced while grain purchases were intensified. Another large boost in this category may develop in the first quarter as a result of the expansion of grain reserves following the grain embargo against the Soviet Union. Strength after the first quarter is unlikely, however.

The remarkable performance by the consumer during the fourth quarter, which caused the savings rate to fall to 3.3%, was concentrated in only a few areas. After adjustment for inflation, food purchases rose 7.5% at annual rates, clothing purchases increased by 11.3% (partially as a result of favorable pricing), toys and cosmetics added to a 12.9% increase after inflation in the other nondurables category, while housing services expanded by 6.4%. All of these rates of increase greatly exceed long-term expansion paths and should moderate substantially in subsequent months. In particular, the apparel sector has experienced three exceptionally strong years. Traditionally, the apparel sector experiences two strong years followed by two lean years, but the continued strength in 1979 appears to be caused by the desire to increase the quality and durability of the average wardrobe. This behavior would extend the length of the cycle, but not cancell it. Thus, considerable weakness probably should develop in the clothing and shoe categories some time during 1980.

Unit labor costs increased 9.4% in the private economy while the private deflator increased only 8.3%. (The more robust increase in the total GNP deflator was caused by the annual salary increases for federal government workers during October). Thus, underlying price pressuers remain even more intensive than those being recorded in the indices. This also means that operating profits rose very little during the fourth quarter. Indeed, our estimates of after tax profits show a gain of 10.4% to $152 billion. Since inventory valuation adjustments and capital consumption adjustments both are up significantly in the fourth quarter, genuine profits appear to have actually declined by a small amount.

Employment

The 317,000 increase in payroll employment during December was not anticipated by changes in initial unemployment claims. Indeed, the insured labor force showed a 0.3 percentage point increase in the unemployment rate between the November and December reference weeks. (However, intital unemployment claims are again receding and that unemployment rate is beginning to decline once again). A revision of the seasonal factors for household employment may be partially responsible for the favorable unemployment rate that was recorded during December. On the other hand, that revision seemed to eliminate most of the dramatic discrepancy that had begun to develop between the household and payroll employment series.

Personal Income and Outlays

Given the significant increase in payroll employment, the 1.2% increase in personal income during December was no surprise. However, the sharp advance in personal outlays was not anticipated by the advance report on retail sales. That report did tend to show a smaller recovery in auto sales than was reflected in estimates of unit sales during the month. It is possible that the underreporting of auto expenditures was identified by the time that the personal income and outlays report was assembled.

Construction

At the present time, the incredibly mild weather during winter is significantly distorting construction activity. The 0.4% increase in housing starts despite a further 5% decrease in housing permits clearly reflects the decision to use existing permits while the weather permits rather than any reversal of housing prospects. Indeed, the slump in permits for multifamily units indicates that a substantial drop in housing starts still is highly likely during the winter months.

Prices

Normally, the slowing in the producer's price index for finished goods to a 0.8% rate of increase in December would indicate some slowing in the CPI for that month. However, the financial services component of the CPI is based upon a three month moving average of finance charges during the first five business days of the month. This weighting scheme means that housing services probably will experience their most rapid increase during December. Moreover, the 0.1% increase in energy prices that was reported in November is unlikely to persist. In the Producer's Price Index, energy components are lagged a month. As a result, wholesale and retail prices for electricity are recorded during the same month. In November, the PPI estimates indicated a drop in electricity prices. This drop did occur in the consumer price index. In December, the PPI shows a 3.5% increase in electricity prices. Assuming a comparable increase develops for the utilities component of the CPI, the services component may show the largest increase of the year. Thus, a 1.2% increase in the CPI appears likely for December.

Miscellaneous

In November, the merchandise trade balance was aided by a $800 million transfer of gold to foreign owners. In addition, oil imports declined more than 11% in real terms. As reported earlier, a sharp reversal from these merchandise trade performances is likely. Our own estimates are for a $1 billion increase in the trade deficit, but the GNP accounts for the fourth quarter suggest that the deficit could again rise above $3 billion. The grain embargo also will have an adverse effect upon the merchandise trade balance during 1980. Not only will nearly $3 billion of agricultural exports be lost, but the reduced disappearance of grains worldwide as a result of reduced herd growth in the Soviet Union will lead to poorer terms of trade for the $30 billion of agricultural products that is exported. The total effect upon the trade balance of the embargo is estimated to be nearly $5 billion. Therefore, after the traditional firming of the dollar as a result of higher oil prices is exhausted, dollar weakness is likely in the spring and in the later months of 1980.

Financial Markets

Because the recessionary forces have been diminished and delayed, and because inflation may again move into significant double-digit activity in the spring of 1980, it now appears that interest rates have not peaked. Traditionally, short-term interest rates tend to trend downward between January 15 and the end of February. At the present time, there is no evidence that this normal seasonal pattern is developing. For this reason, the ides of March in 1980 may again be another period of peak interest rates. At the present time, our projections show only a modest acceleration of interest rates following a very modest lull in February. However, estimates of seasoned Aaa's above 11% in March or April and of a prime rate that touches or exceeds 16% during the same period of time no longer can be fully discounted.

After the latest benchmark revision, but before any seasonal adjustments have been made to the newest monetary statistics, M1 grew 5.2% in December while M2 grew a surprisingly slow 5.7%. This occurred despite a rapid 8.1% increase in the monetary base and a very slow gain in the growth of currency. Thus, the stability of interest rates during December may have been caused by restraint by the Federal Reserve. While some improvement could occur when these restraints are lifted, it must also be remembered that December experienced some modest easing of inflationary pressures.

Stock Market Conditions

Two factors appear to be responsible for the favorable stock market performance in early January. First, short-term interest rates had stabilized after many months of increases. Moreover, the concensus forecast was for decreases in short-term interest rates in the months ahead. Second, industrial inflation was again intensifying. This meant that many industries, especially those with substantial stockpiles of raw resources, would experience a greater increase in the value of their assets than in the discount factor that is used to evaluate the current market value of such assets. The fact that a recession still has not developed also meant that near term earnings forecasts would need to be increased. However, interest rates probably will soon rise sufficiently to fully discount the resurging industrial inflation. Moreover, a mild recession still seems very probable. As interest rates are not expected to catch up with resurging industrial inflation until March or April, a stock market rally could persist through February. While such a rally could lead the Dow into the mid 900's, and the broader measures of the indexes up by twice that rate of increase, a significant correction then would be expected. Only at the end of the year, when interest rates are truly on a downward path and the recession that has not yet begun has basically been completed, will a renewed assault on the early spring highs occur.

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Employment		Unemployment Rate		Hourly Earnings Index	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
August, 1979	89762	89762	125.5	125.5	96900	97004	6.0	5.9	232.2	232.2
September	89845	89803	125.9	125.9	97513	97504	5.8	5.8	234.2	234.3
October	90151	899	125.9	125.8	97293	97474	6.0	5.9	234.9	234.9
November	90229	90109	125.7	126.3	97479	97608	6.0	5.8	237.0	237.1
December	90148	90426	125.2	126.9	97524	97912	6.1	5.9	239.7	239.1
January	89983	90500	124.8	126.7	97356	98010	6.4	6.1	241.3	240.4
February	89702	90480	124.4	126.4	97265	98109	6.7	6.2	242.8	242.4
March	89505	90316	124.0	125.9	97000	97948	6.7	6.3	244.3	244.3
April	89463	90237	123.8	125.7	96783	97892	6.8	6.4	245.9	245.7
May	89419	90165	123.6	125.6	96572	97786	7.0	6.5	247.4	247.5
June	89354	90158	123.3	125.5	96463	97721	7.3	6.6	249.1	249.4
July	89296	90230	123.1	125.6	96505	97856	7.5	6.7	250.5	252.4
August	89315	90223	123.2	125.5	96759	97716	7.7	6.9	251.9	252.4
September	89358	90144	123.4	125.3	96779	97779	7.9	7.1	253.4	254.4
October	89428	90223	123.7	125.5	96815	97752	8.0	7.2	254.6	255.3
November, 1980	89498	90288	123.6	125.5	96889	97838	8.0	7.3	255.9	257.7

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
August, 1979	1.938	1.947	1.233	1.237	70.1	71.5	1.636	1.640	1.566	1.569
September	1.955	1.960	1.243	1.248	42.3	51.0	1.643	1.648	1.601	1.597
October	1.975	1.979	1.257	1.257	64.7	61.9	1.661	1.663	1.596	1.601
November	1.990	2.000	1.266	1.270	63.3	60.9	1.672	1.678	1.609	1.618
December	2.002	2.023	1.269	1.283	66.4	44.9	1.682	1.695	1.616	1.650
January	2.010	2.033	1.274	1.289	68.3	50.3	1.686	1.702	1.618	1.652
February	2.021	2.047	1.279	1.298	66.4	54.7	1.694	1.713	1.628	1.659
March	2.034	2.063	1.286	1.306	67.8	59.9	1.705	1.725	1.638	1.665
April	2.046	2.075	1.292	1.313	66.6	62.1	1.714	1.735	1.647	1.673
May	2.058	2.091	1.298	1.321	63.0	60.7	1.723	1.747	1.660	1.686
June	2.067	2.106	1.302	1.330	54.3	61.5	1.725	1.758	1.671	1.697
July	2.094	2.137	1.307	1.340	72.2	73.4	1.755	1.784	1.683	1.711
August	2.108	2.151	1.316	1.347	68.2	76.6	1.764	1.795	1.696	1.718
September	2.129	2.168	1.331	1.357	75.6	70.3	1.775	1.807	1.699	1.737
October	2.145	2.188	1.346	1.368	77.3	75.9	1.794	1.822	1.716	1.746
November, 1980	2.167	2.209	1.353	1.381	79.5	75.6	1.809	1.838	1.729	1.762

Fore. = November Forecast
C. E. = Current Expectations

RETAIL SALES

	Retail Sales		Non Auto Durables		Auto (Million Units)		Nondurable Sales		Auto Sales	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
August, 1979	74.62	74.79	11.35	11.36	11.0	11.0	48.79	48.84	14.48	14.59
September	76.26	76.93	11.47	11.59	10.8	10.8	49.82	49.96	14.97	15.38
October	75.19	75.61	11.53	11.45	9.4	9.4	49.67	50.14	13.99	14.02
November	75.57	76.18	11.62	11.23	9.5	9.5	49.80	50.93	14.15	14.02
December	75.47	77.02	11.60	11.40	9.5	10.2	49.67	51.36	14.20	14.26
January	74.93	77.11	11.42	11.32	8.5	10.0	50.66	50.99	12.85	14.80
February	75.15	77.11	11.35	11.47	8.3	9.5	51.15	51.39	12.65	14.25
March	75.39	77.88	11.40	11.62	8.3	9.0	51.29	51.81	12.70	13.57
April	75.69	77.75	11.38	11.53	8.4	9.0	51.41	51.98	12.90	13.64
May	76.32	77.84	11.39	11.74	8.6	9.0	51.68	52.46	13.25	13.64
June	76.76	78.26	11.37	11.85	8.5	8.9	52.24	52.80	13.15	13.61
July	77.23	78.81	11.38	11.89	8.3	8.9	52.95	53.26	12.90	13.66
August	77.78	79.04	11.39	11.98	8.2	8.7	53.59	53.62	12.80	13.44
September	77.43	79.88	11.32	12.06	8.2	8.8	53.26	54.16	12.85	13.66
October	77.95	79.78	11.36	12.00	8.3	8.6	53.53	54.15	13.06	13.65
November, 1980	78.45	80.97	11.42	12.14	8.4	8.7	53.85	54.91	13.18	13.92

INDUSTRIAL PRODUCTION

	Industrial Production		Capacity Utilization	
	Fore.	C. E.	Fore.	C. E.
August	151.5	151.6	84.8	84.8
September	152.3	152.4	85.1	85.1
October	152.3	152.3	84.8	84.9
November	151.0	151.8	83.7	84.4
December	150.3	152.2	83.0	84.4
January	149.8	151.9	82.5	84.0
February	149.1	151.4	81.8	83.5
March	148.1	150.7	80.9	82.8
April	147.3	150.0	80.2	82.1
May	146.8	149.8	79.7	81.6
June	146.3	149.6	79.2	81.2
July	145.8	149.7	78.7	81.0
August	146.1	149.5	78.6	80.6
September	146.4	149.2	78.6	80.1
October	146.7	149.5	78.7	80.1
November, 1980	147.8	149.6	79.4	79.9

Fore. = November Forecast
C. E. = Current Expectations

HOUSING

	Housing Starts		Single Family Starts		Housing Permits		Construction Expenditures (Current)		Construction Expenditures (Real)	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
August, 1979	1.806	1.793	1.240	1.239	1.654	1.654	232.4	232.4	115.1	115.1
September	1.881	1.921	1.249	1.254	1.733	1.775	235.8	232.6	116.2	114.1
October	1.820	1.762	1.206	1.161	1.635	1.542	237.0	238.5	115.9	115.8
November	1.738	1.522	1.103	0.966	1.548	1.263	238.4	235.3	115.7	114.3
December	1. 95	1.527	1.094	0.972	1.52	1.204	236.3	232.2	113.8	112.2
January	1.565	1.406	0.983	0.871	1.360	1.169	235.4	229.2	112.6	109.8
February	1.502	1.323	0.936	0.802	1.267	1.073	235.6	229.5	111.8	109.1
March	1.436	1.268	0.853	0.752	1.195	1.052	234.3	227.7	110.4	107.4
April	1.409	1.272	0.874	0.757	1.177	1.005	231.8	227.1	108.4	106.2
May	1.381	1.231	0.863	0.700	1.141	1.022	230.6	229.0	107.1	106.2
June	1.344	1.209	0.834	0.709	1.093	0.975	230.0	230.0	106.1	105.7
July	1.312	1.269	0.792	0.742	1.067	1.024	230.2	231.1	105.4	105.3
August	1.286	1.337	0.751	0.795	1.036	1.096	229.6	233.5	104.4	105.3
September	1.314	1.388	0.773	0.846	1.045	1.146	230.1	236.2	103.9	105.9
October	1.345	1.452	0.795	0.912	1.063	1.197	230.7	239.0	103.4	106.3
November,1980	1.422	1.516	0.864	0.955	1.160	1.262	232.3	240.1	103.4	105.9

HOUSING CONTINUED

	Private Non Residential		Public Construction		Residential Construction	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
August, 1979	82.8	82.8	49.5	49.5	100.1	100.1
September	82.5	82.6	52.1	50.9	101.2	99.0
October	83.1	86.3	51.9	52.9	99.7	99.2
November	83.9	85.7	53.0	51.2	95.3	98.3
December	84.6	86.1	52.9	52.3	88.7	93.8
January	85.1	85.8	53.5	53.2	84.3	90.2
February	85.7	86.7	54.1	53.3	80.7	89.5
March	85.6	87.2	54.2	53.5	80.5	87.0
April	86.0	86.6	54.8	54.1	81.1	86.4
May	86.6	89.0	55.3	54.6	82.4	85.4
June	87.1	90.5	54.7	54.5	82.3	85.0
July	87.5	91.2	55.3	55.2	81.9	84.7
August	87.9	91.4	56.9	55.5	81.5	86.6
September	88.1	90.9	56.2	56.2	82.4	89.1
October	88.4	91.6	56.6	56.6	84.4	90.8
November,1980	88.7	91.4	57.0	56.5	86.6	92.2

Fore. = November Forecast
C. E. = Current Expectations

BUSINESS ACTIVITY

	Manufacturers Inventories		Durable Goods Orders		Non-defense Capital Goods Orders		Non-defense Capital Shipments	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
August, 1979	219.1	219.1	74.39	74.03	21.16	20.74	19.94	20.01
September	220.8	221.4	78.42	77.56	22.41	21.82	20.25	20.02
October	223.1	223.5	74.02	76.40	20. 6	20.78	20.36	20.02
November	224.6	226.2	73.14	76.32	20.55	21.09	20.45	19.61
December	226.8	228.7	72.56	75.39	20.39	20.76	20.64	20.06
January	228.3	231.1	74.16	74.86	21.02	20.43	20.67	20.35
February	229.8	233.9	72.85	75.42	20.53	20.92	20.77	20.29
March	230.5	235.8	71.73	76.19	20.12	21.43	20.66	20.69
April	231.8	237.5	74.12	76.50	20.96	21.36	20.85	20.66
May	232.7	238.8	75.63	76.12	21.42	21.35	21.03	20.81
June	233.3	240.1	75.89	75.76	21.53	21.03	31.39	20.76
July	234.1	241.3	74.12	76.35	21.01	21.55	21.26	21.13
August	234.9	242.2	74.02	77.14	21.32	21.99	21.45	21.59
September	236.5	243.3	73.61	77.43	20.79	22.07	21.33	21.68
October	238.1	245.3	74.46	77.96	21.15	22.38	21.49	21.66
November,1980	239.0	247.7	75.85	77.16	21.75	21.99	21.64	21.62

	Business Inventories		Defense Shipments	
	Fore.	C. E.	Fore.	C. E.
August, 1979	416.9	416.9	2.99	2.99
September	421.3	417.3	2.88	2.93
October	424.9	421.1	2.94	3.01
November	428.9	424.2	3.00	3.12
December	434.1	429.3	3.18	3.21
January	436.0	434.8	3.23	3.27
February	438.8	439.8	3.26	3.34
March	441.4	442.9	3.29	3.37
April	442.8	446.2	3.36	3.44
May	444.1	447.9	3.45	3.45
June	446.2	450.5	3.51	3.53
July	447.9	452.4	3.57	3.55
August	449.6	454.1	3.66	3.68
September	451.7	456.0	3.81	3.74
October	453.8	460.2	3.92	3.83
November,1980	456.0	464.0	3.99	3.85

Fore. = November Forecast
C. E. = Current Expectations

PRICES

	CPI (unadjusted)		PPI Finished Goods		PPI-Industrial Commodities (unadjusted)		Agricultural Prices (unadjusted)		IVA Corp. (annual rate)	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
August, 1979	221.1	221.1	217.3	217.3	240.4	240.6	237	237	42.3	46.5
September	223.4	223.4	220.4	220.4	243.8	243.8	240	241	45.1	50.2
October	226.1	225.4	223.7	223.7	248.4	248.5	235	236	49.4	59.7
November	228.3	227.5	225.9	225.9	251.5	250.2	237	238	37.6	46.3
December	230.4	230.0	227.8	227.8	253.7	252.8	239	239	23.5	42.5
January	231.9	232.1	229.1	229.4	255.3	255.8	244	239	24.5	44.1
February	233.0	234.2	230.6	231.5	257.1	258.6	249	245	25.1	46.9
March	234.4	236.2	232.0	233.7	258.6	261.5	253	249	22.2	46.0
April	237.2	238.7	234.6	235.8	261.2	265.4	258	255	31.5	43.3
May	240.1	241.2	237.0	238.2	263.9	268.2	256	255	32.9	39.6
June	243.3	243.7	240.1	240.7	268.4	270.5	260	261	58.4	36.7
July	245.2	245.8	242.0	243.0	270.6	273.3	264	266	20.9	33.4
August	247.2	247.6	244.0	245.0	272.9	276.2	262	262	22.4	31.2
September	249.5	249.8	246.2	247.4	275.2	279.4	266	264	23.5	34.0
October	251.6	251.8	248.3	249.6	277.1	283.1	260	257	30.3	35.7
November, 1980	253.7	253.7	250.5	251.7	279.0	285.1	257	253	29.2	36.4

MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators		Estimated GNP		Estimated GNP (1972 $)	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
August, 1979	-2357	-2357	140.2	139.7	2387	2398	1428	1435
September	-2833	-2833	141.3	140.3	2412	2414	1433	1433
October	-2541	-2018	139.9	138.4	2424	2488	1428	1434
November	-2575	-1420	139.5	136.6	2439	2459	1408	1437
December	-2335	-2474	138.7	136.4	2453	2491	1425	1445
January	-2273	-2146	138.9	135.6	2454	2500	1417	1443
February	-2447	-2346	138.2	134.6	2459	2511	1410	1434
March	-2783	-2791	137.7	134.2	2468	2525	1406	1429
April	-2753	-2643	137.8	134.0	2480	2537	1403	1425
May	-2552	-2672	138.3	134.2	2492	2554	1401	1427
June	-1610	-2315	139.0	134.5	2502	2570	1397	1425
July	-1886	-2265	139.3	134.9	2523	2587	1399	1425
August	-2148	-2305	139.2	135.4	2534	2600	1395	1422
September	-2022	-2519	139.7	135.2	2549	2620	1393	1422
October	-2131	-2441	140.2	135.7	2588	2644	1400	1422
November, 1980	-1870	-2095	140.7	135.3	2610	2671	1406	1427

Fore. = November Forecast
C. E. = Current Expectations

FINANCIAL MARKETS

	Monetary Base		MI		M2		Federal Funds		T-Bills (6 Mos.)	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
August, 1979	149.4	149.4	374.3	375.3	922.5	927.1	10.88	10.88	9.45	9.45
September	151.0	151.0	377.8	379.2	931.9	936.6	11.33	11.33	10.13	10.13
October	152.3	152.5	378.6	380.0	938.6	943.3	13.07	13.07	11.34	11.34
November	153.4	152.7	381.3	380.5	944.8	948.3	15.55	13.65	12.16	11.86
December	154.2	153.7	383.4	382.1	949.8	952.7	14.83	13.77	11.63	11.85
January	154.6	155.0	384.6	384.1	956.3	958.2	13.62	13.83	11.45	11.82
February	154.9	156.1	385.6	386.4	963.9	965.9	12.48	13.42	11.29	11.56
March	155.3	156.9	387.5	388.7	972.1	947.1	11.19	13.86	11.10	11.82
April	156.2	157.1	389.1	389.9	979.5	979.1	10.85	13.46	10.62	11.56
May	157.1	157.6	391.5	391.8	986.3	986.1	10.78	13.00	9.83	11.02
June	158.3	158.6	393.6	393.7	990.7	993.8	10.53	12.43	9.28	10.51
July	159.0	159.1	395.2	395.1	996.5	999.2	10.28	11.67	9.35	10.02
August	159.8	159.7	396.0	396.9	1001.6	1005.8	10.09	10.76	9.39	9.72
September	160.6	160.5	397.1	399.1	1008.8	1014.3	9.71	10.24	9.39	9.42
October	161.4	161.3	398.2	401.3	1013.4	1022.0	9.66	10.15	9.32	9.48
November, 1980	162.8	162.0	402.0	403.5	1023.5	1029.7	9.52	9.83	9.02	9.11

	Aaa (Seasoned)		Municipals		Commercial Paper		90 Day CD's		Prime Rate	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
August	9.23	9.23	6.20	6.20	10.36	10.36	10.58	10.58	11.88	11.91
September	9.44	9.44	6.52	6.52	11.58	11.58	11.79	11.79	13.13	12.90
October	10.00	10.13	7.08	7.08	13.09	13.09	13.19	13.53	14.65	14.39
November	10.45	10.75	7.21	7.30	14.16	13.62	14.43	14.00	15.73	15.55
December	10.11	10.74	6.99	7.22	13.85	13.17	14.09	13.43	15.48	15.35
January	10.05	10.92	6.97	7.28	13.02	12.88	13.25	13.35	14.76	15.10
February	10.05	10.78	6.98	7.19	12.16	12.71	12.41	13.26	13.95	15.00
March	9.99	10.95	6.89	7.35	10.79	13.39	10.95	13.68	12.53	15.40
April	9.91	10.81	6.82	7.25	10.51	13.30	10.77	13.62	12.29	15.35
May	9.83	10.75	6.73	7.23	10.37	12.78	10.56	13.05	12.02	14.60
June	9.72	10.44	6.65	7.07	10.19	12.11	10.39	12.45	11.74	14.08
July	9.70	10.29	6.62	7.01	9.86	11.14	10.06	11.51	11.50	13.22
August	9.69	9.95	6.59	6.87	9.54	10.37	9.94	10.75	11.43	12.40
September	9.68	9.81	6.60	6.73	9.37	9.78	9.65	10.15	11.00	11.75
October	9.64	9.72	6.55	6.66	9.29	9.84	9.45	10.27	10.75	11.75
November, 1980	9.51	9.59	6.46	6.57	9.12	9.46	9.43	9.73	10.75	11.28

Fore. = November Forecast
C. E. = Current Expectation

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GSU Economic Forecasting Project Newsletter

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Monthly Projections for February

AN INFLATION CRISIS?

January's estimates of price changes came as a complete shock to all market participants. Not only was the magnitude of the increases large, a 1.6% gain in the producers' price index on finished goods and a 1.4% increase for the CPI, but the increases were remarkably widespread throughout the industrial sector. Agricultural prices declined even as this overall price explosion occurred. Immediately, the Federal Reserve responded by increasing the discount rate and increasing the allowable trading range on federal funds. Credit markets responded with a continuation of one of the most castastrophic declines in values ever recorded. By the time that rumors of credit controls led to a mild market recovery, bonds had lost nearly $0.5 trillion in market value. The economic impact of this capital loss is not so great as when such a loss occurs in equities, because many holders of long-term financial instruments will exercise the option of maintaining their position until maturity. Nevertheless, the heightened risk of investing in fixed income instruments is adding to the interest rates demanded by lenders in excess of any inflationary premium that also is required.

The enormous increase in inflationary pressures during January raises two questions: (1) Why wasn't it anticipated? (2) Does it indicate an uncontrollable situation?

One reason that the inflationary pressures were not anticipated was caused by the shift in relative importance of price changes that occurs every January. For example, gasoline price changes received a 10.2% importance weighting for consumer non-food finished goods in the 1979 index. Because gasoline shipments have increased in dollar value relative to all shipments, their importance has been enhanced to 14.0% in 1980. The largest percentage changes in relative importance occurred in the precious metals. Their importance is very small, but the magnitude of their price increases in January were unusually large. As a result of weighting changes, estimates of changes in industrial prices were understated by almost 0.7 percentage points. The implication of this change was not that January's price changes were biased upward. Rather, as the importance of shipments was changing throughout the year but adjustments were made only at year-end, a downward bias in inflationary pressures was introduced through much of the second part of 1979. In other words, industrial inflation was accelerating but the technical changes in the price indices were insufficient to register that condition. In 1980, we shall take greater measures to analyze whether price changes that have been dramatic over the previous 12 months are also accelerating their rate of change. If this occurs, the relative importance of these components may again be increasing.

Of greater importance than the technical changes in the index was the dramatic increase in prices that could not be anticipated by traditional analysis of cross price elasticities or of underlying cost pressures. Subtantial portions of the industrial price index registered price changes well in excess of those that normally occur relative to our well developed weighting schemes. This strongly suggests that pricing decisions no longer are being predicated upon current cost conditions. Either demand pressures have sharply intensified, as in the case of capital equipment, price setters are anticipating sharply accelerated cost pressures but do not wish to adjust their pricing catalogs every month, or prices are being increased in anticipation of government interference. Moreover, commodities traded worldwide clearly are leading the upward pressure upon prices. The fact that sharp acceleration of domestic inflation has had little impact upon the value of the dollar (to a large extent the dollar actually has improved in relative value) strongly suggests that a portion of our inflation is being imported as a result of an explosion in international liquidity. This latter effect could prove to be a one-time upward movement of international prices.

Nevertheless, the shift from cost-induced inflation to anticipatory price changes adds a new dimension to the short-term inflationary process. Also, the collapse of bond values and the sharp acceleration in the price of capital equipment indicate that double-digit inflationary pressures soon could be embedded in the cost structure of American industries. Once substantial borrowings have occurred at 14% or higher rates of interest, attempts to lower inflation to the single digit range will be met by substantial corporate financial stress. Thus, a true inflationary crisis does exist.

Policy Alternatives to Meet the Crisis

Obviously, the President's budget, which included expenditures increases of 14.5% for FY 1980 and 9.6% for FY 1981 was not well received. Not only did the expenditures increases for 1980 indicate substantial near term borrowing costs and increases in aggregate demand, but the continuation of phased decontrol of domestic oil coupled with the Windfall Profits Tax and the absence of any correction to the rapid increases in social security taxes scheduled for January 1, 1981 indicated that significant increases in administered inflationary pressures were being proposed.

Of course, the Administration expected that a recession already had begun. Current indicators definitely suggest that real GNP continued to advance in January. Although problems in seasonal adjustment techniques may be responsible for these healthy measures of increased economic activity, the recession certainly has not yet begun. Thus, the underlying economic assumptions on which the budget was based already appear to be faulty.

Some of the policy options available to the Administration under the circumstances are the following: First, intensify the price monitoring mechanism in the voluntary program. Second, reduce the beneficial interpretation of the cost of living clauses in existing contracts. To the extent that the CPI overstates inflationary pressures near inflationary peaks, cost of living clauses intensify inflationary pressures.

Third, change the cost of living formulas for all indexed expenditures in the Federal Government. Fourth, reduce the federal support for state and local governments through reductions in general revenue sharing and through reductions in categorical grant programs. Fifth, announce a rollback of social security taxes that are scheduled to increase January 1, 1981. Sixth, use credit controls to restrain the growth of economic activity in the private sector.

The Administration has two basic options for utilizing credit controls at this time. First, the Federal Reserve can reinstitute regulation W, which controls the minimum down payment required for purchases of consumer durables and housing and which also restricts the maximum months of payment for such contracts. This program would significantly reduce economic activity in consumer durables and housing activities. Since housing sales already are at a decade low of 594,000 in December, such a program would increase economic imbalance rather than moderate underlying inflationary pressures. Second, the regulatory agencies of the federal government could use the credit adequacy rule to limit the total growth of liabilities at lending institutions. Such a program would significantly restrain credit and would impact all lending institutions independent of their membership in the Federal Reserve or other organizations. There is an issue as to whether this particular program would be permissible under current regulatory authority.

Obviously, none of the above options appears to be sufficiently broad to attack the basic problems. For that reason, the Administration clearly is seeking alternative approaches.

Monthly Highlights
February 1980

Note: These estimates differ from the values contained under the forecast column for the various components. In order to be as timely as possible, these estimates incorporate all the available information.

Payroll employment, -125,000; hours worked, -0.3%; unemployment, 6.2%; personal income, +0.7%; disposable income, +0.6%; retail sales, -0.2%; auto sales, 10.8 million; industrial production, -0.2%; housing starts, -6.2%; housing permits; -5.5%; construction expenditures, -2.1%; durable goods orders, +1.8%; orders for nondefense capital goods, +2.5%; business inventories, +1.4%; CPI, +1.3%; PPI, +1.3%; merchandise trade deficit, (old bases) -$3.05 billion; leading indicators, -0.2%; M1-B, 9.8%, M2, +10.3%.

Current Profile of GNP

	% Change 1980-1	% Change 1980-2	% Change 1980-3	% Change 1980-4
Change in Real Output	+2.1	+0.5	-2.7	-2.6
Price Deflator	10.8	10.5	8.9	9.3
Nominal GNP	13.1	11.2	6.3	5.6

Commentary

Employment

Unusual weather conditions in recent January's may have distorted the estimates of payroll employment. Because many people who were not working because of inclement weather conditions may have believed themselves to be in the work force, especially in construction, such seasonal problems are less intense in household employment. For that reason, the 305,000 increase in payroll employment in January is less indicative of true labor market conditions than the 108,000 reduction in household employment. Moreover, the decline in employment appeared to be heavily concentrated in male head of households, a category that traditionally does not fluctuate very much because of survey errors. Therefore, substantial decreases in payroll employment are anticipated for February even as household employment may show a rise and unemployment may decline slightly.

More significantly, the hourly earnings index currently is only 7.7% above previous year levels. One of the reasons for this modest rate of increase is the smaller magnitude of minimum wage impact in this January. However, seasonal factors also may be at work here. For that reason, an explosion in wage gains coupled by a significant increase in personal income may occur in February despite relatively modest changes in employment conditions.

Personal Income and Outlays

Aside from the large increase in wage and salary earnings anticipated for February, personal income should be significantly increased by gains in interest income. A partial offset to this rise will be the absence of any further credits for energy consumption or the earned income tax credit. More significantly, disposable income was increased by $10 billion in January as a result of anticipations of increased tax refunds during this tax paying period. Personal savings probably were not as robust as even the $50.7 billion recorded in January.

Construction

In December, single family housing sales fell to 594,000, the lowest in more than a decade. The figures do not show any significant increase in inventory. However, if current housing starts of 1.42 million continued, substantial increases in inventories of single family units could develop in the next few months. As credit market conditions have deteriorated even further since the February forecast was made, housing starts apparently will decline almost 200,000 more than previously anticipated. For that reason, a starts figure of not much more than 1.15 million for 1980 appears to be appropriate.

Construction expenditures are continuing to rise, but this also may be the result of unusual seasonal characteristics. By March, a definite downtrend in construction should be apparent. Moreover, the influence of reduced price pressures in construction probably will not continue. For example, the implicit construction deflator increased at an annual rate of only 6% between September and December 1979. This is one of the reasons why the GNP deflator has been much more moderate in measuring inflationary pressures than the more popular indicies.

Financial Markets

The explosion of industrial prices obviously has sharply increased the IVA component of inventory investment. Even with little change in the physical stock of inventories, this rapid increase in valuation factors necessitates a dramatic increase in commercial loans. Whether the recent explosion of inflationary pressures was caused by previous monetary excesses remains for historians to debate. At this time, however, the explosion of prices appears to predate the acceleration in monetary aggregates. After the October shift in monetary policy slowed the growth of the monetary base in November, gradual acceleration began to develop by December. In December, the base rose at an annual rate of 8.1%. In January, the base increased 11.5% at annual rates, while the gain for February appears to be exceeding 12%. The latest estimates for money available for transactions purposes, M1-B did not show the same growth. That measure already had moderated in October and only began to grow at a 4.5% annual rate in November. The December growth of 7.7% was worrisome, but the growth rate moderated again in January. Unfortunately, it is now clear that rapid gains in the monetary base during previous months are catching up with M1-B. A monetary explosion is developing in February, despite changes in the discount rate and other credit tightening moves by the Federal Reserve. This clearly suggests that more direct and open control of credit conditions may prove to be desirable.

Given the current climate of rapidly accelerating inflation, increased risk in the bond market, and rumors about possible credit controls, the forecasted values for interest rates already appear to be inappropriately low. While a dramatic shift in policy could cause those markets to peak, credit market pressures are still intense. As a result, corporate Aaa rates may pierce 13% in March while the prime rate could approach 18%. If no dramatic action is forthcoming from the Administration, interest rates should peak late in March or early in April. The collapse of construction activity probably will lead to that conclusion. However, dramatic policy changes could come as soon as Friday, March 7, following the employment and Producer's Price Index reports.

Stock Market

Initially, the increased risk developing in the fixed income markets proved to be beneficial to investors in the stock market. However, any policy shift that is designed to significantly reduce inflationary pressures probably will also intensify the near-term likelihood of an economic correction. Since interest rates tend to lag changes in inflationary pressures, this suggests that real rates of interest could become dramatically positive by summer. Under these circumstances, a significant correction in equity values cannot be ruled out. Indeed, a decline in values below the 800 level on the Dow Jones average would coincide with this outlook.

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Employment		Unemployment Rate		Hourly Earnings Index	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
September 1979	89803	89803	125.9	125.9	97504	97504	5.8	5.8	234.3	234.3
October	89982	89982	125.8	125.8	97474	97474	5.9	5.9	234.9	234.9
November	90100	90100	126.3	126.3	97608	97608	5.8	5.8	237.3	237.3
December	90231	90231	126.7	126.7	97912	97912	5.9	5.9	239.3	239.3
January	90536	90536	126.7	126.7	97804	97804	6.2	6.2	239.8	239.8
February	90602	N.C.	126.9	N.C.	97918	N.C.	6.3	N.C.	241.5	N.C.
March	90668		127.0		98032		6.3		243.2	
April	90875		126.8		98305		6.2		245.3	
May	90878		126.6		98408		6.3		246.8	
June	90881		126.4		98511		6.4		248.4	
July	90915		126.5		98543		6.4		250.0	
August	90973		126.5		98576		6.5		251.9	
September	91031		126.5		98609		6.6		253.8	
October	91055		126.5		98653		6.7		255.0	
November	91086		126.5		98722		6.7		257.2	
December, 1980	91117		126.6		98791		6.8		258.9	

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
September, 1979	1.960	1.960	1.248	1.248	51.0	51.0	1.648	1.648	1.597	1.597
October	1.979	1.981	1.257	1.257	61.9	62.5	1.663	1.665	1.601	1.603
November	2.000	2.004	1.271	1.271	60.9	59.2	1.678	1.682	1.618	1.622
December	2.023	2.024	1.282	1.283	44.9	50.6	1.695	1.696	1.650	1.646
January	2.036	2.036	1.290	1.289	48.3	50.7	1.714	1.716	1.666	1.666
February	2.055	N.C.	1.301	N.C.	51.9	N.C.	1.729	N.C.	1.677	N.C.
March	2.073		1.311		53.5		1.743		1.690	
April	2.090		1.320		56.0		1.756		1.700	
May	2.107		1.326		57.6		1.769		1.711	
June	2.122		1.332		59.2		1.781		1.722	
July	2.153		1.341		70.5		1.808		1.738	
August	2.171		1.351		66.3		1.822		1.755	
September	2.189		1.361		62.9		1.835		1.772	
October	2.209		1.378		67.3		1.849		1.782	
November	2.222		1.383		64.3		1.860		1.796	
December, 1980	2.236		1.390		64.3		1.871		1.807	

Fore. = February Forecast
C. E. = Current Expectations
N. C. = No Change Computed

RETAIL SALES

	Retail Sales		Non Auto Durables		Auto (Million Units)		Nondurable Sales		Auto Sales	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
September, 1979	76.93	76.93	11.59	11.59	10.8	10.8	49.96	49.96	15.38	15.38
October	75.61	75.61	11.45	11.45	9.4	9.4	50.14	50.14	14.02	14.02
November	76.18	76.43	11.23	11.23	9.6	9.6	50.93	51.58	14.02	14.06
December	77.02	76.81	11.40	11.42	10.5	10.5	51.36	51.13	14.26	14.27
January	78.18	78.55	11.60	11.64	11.5	11.6	51.78	51.94	14.80	14.96
February	78.35	N.C.	11.58	N.C.	10.5	N.C.	52.12	N.C.	14.65	N.C.
March	78.69		11.59		9.5		52.63		14.47	
April	78.89		11.63		9.3		53.03		14.23	
May	79.10		11.64		9.2		53.44		14.02	
June	79.39		11.66		9.2		53.92		13.81	
July	80.04		11.69		9.2		54.48		13.87	
August	80.75		11.86		9.2		54.95		13.94	
September	81.48		11.88		9.2		55.46		14.14	
October	81.74		11.80		9.0		55.93		14.01	
November	82.36		11.90		9.1		56.31		14.15	
December, 1980	82.67		11.91		9.0		56.65		14.11	

INDUSTRIAL PRODUCTION

	Industrial Production		Capacity Utilization	
	Fore.	C. E.	Fore.	C. E.
September, 1979	152.4	152.4	85.1	85.1
October	152.3	152.2	84.9	84.9
November	151.8	152.1	84.4	84.6
December	152.2	152.3	84.4	84.3
January	152.2	152.7	84.2	84.3
February	152.4	N.C.	84.1	N.C.
March	152.3		83.8	
April	151.3		83.0	
May	150.1		81.8	
June	149.3		81.0	
July	149.0		80.6	
August	148.8		80.3	
September	148.5		80.0	
October	148.3		79.7	
November	148.0		79.3	
December, 1980	147.8		79.1	

Fore. = February Forecast
C. E. = Current Expectations
N. C. = No Change Computed

HOUSING

	Housing Starts		Single Family Starts		Housing Permits		Construction Expenditures (Current)		Construction Expenditures (Real)	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
September, 1979	1.921	1.874	1.254	1.237	1.775	1.775	232.6	232.6	114.1	114.1
October	1.762	1.710	1.161	1.139	1.542	1.542	238.4	238.4	115.8	115.8
November	1.522	1.522	0.966	0.980	1.263	1.263	237.4	237.4	114.7	114.7
December	1.527	1.517	0.972	1.036	1.204	1.204	239.6	239.6	115.8	115.8
January	1.473	1.420	0.963	0.998	1.210	1.225	239.8	N.C.	114.9	N.C.
February	1.451	N.C.	0.936	N.C.	1.194	N.C.	238.9		113.3	
March	1.429		0.909		1.183		238.0		111.8	
April	1.306		0.852		1.062		235.8		110.1	
May	1.249		0.786		1.006		234.7		109.0	
June	1.258		0.720		1.022		233.6		107.9	
July	1.286		0.783		1.057		234.1		107.3	
August	1.331		0.838		1.116		234.7		106.6	
September	1.415		0.893		1.186		235.3		106.0	
October	1.389		0.862		1.174		237.0		106.2	
November	1.420		0.889		1.201		239.2		106.5	
December, 1980	1.451		0.916		1.235		241.4		106.8	

HOUSING CONTINUED

	Private Non Residential		Public Construciton		Residential Construction	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
September, 1979	82.6	82.6	50.9	50.9	99.0	99.0
October	86.3	86.3	52.9	52.9	99.2	99.2
November	86.4	86.4	51.9	51.9	99.1	99.1
December	88.6	88.6	51.2	51.2	99.8	99.8
January	88.7	N.C.	51.8	N.C.	99.3	N.C.
February	88.8		52.5		97.6	
March	88.9		53.2		95.9	
April	90.6		53.1		92.1	
May	91.4		53.6		89.7	
June	92.2		54.1		87.3	
July	93.0		54.5		86.6	
August	93.4		54.8		86.5	
September	93.8		55.1		86.4	
October	94.5		55.6		86.9	
November	95.3		56.0		87.9	
December, 1980	96.1		56.4		88.9	

Fore. = February Forecast
C. E. = Current Expectations
N. C. = No Change Computed

BUSINESS ACTIVITY

	Manufacturers Inventories		Durable Foods Orders		Non-defense Capital Goods Orders		Non-defense Capital Shipments	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
September 1979	221.4	221.4	77.56	77.56	21.82	21.82	20.02	20.02
October	223.5	223.5	76.40	76.66	20.78	21.00	20.02	20.10
November	226.2	226.2	75.42	75.42	21.42	21.42	19.60	19.60
December	228.1	228.1	76.67	77.75	22.77	22.86	20.17	20.22
January	230.3	N.C.	78.43	81.08	22.95	23.14	20.21	21.54
February	232.7		76.13	N.C.	21.63	N.C.	20.26	N.C.
March	235.3		75.87		21.42		20.31	
April	238.1		75.26		21.09		20.53	
May	240.4		76.12		21.15		20.73	
June	242.7		76.85		21.27		20.93	
July	245.0		77.71		21.53		21.15	
August	246.9		80.15		23.41		21.07	
September	248.6		79.92		22.28		20.99	
October	249.7		80.68		22.73		21.18	
November	251.4		81.21		23.15		21.37	
December, 1980	253.0		81.59		23.39		21.56	

	Business Inventories		Defense Shipments	
	Fore.	C. E.	Fore.	C. E.
September, 1979	417.3	417.3	2.93	2.93
October	421.1	421.2	3.01	3.01
November	424.2	424.4	3.14	3.14
December	427.9	426.3	3.23	3.18
January	431.5	N.C.	3.24	3.34
February	435.3		3.25	N.C.
March	439.8		3.26	
April	444.2		3.32	
May	447.9		3.38	
June	452.7		3.44	
July	455.3		3.47	
August	458.8		3.51	
September	462.9		3.55	
October	464.9		3.60	
November	468.3		3.65	
December, 1980	471.7		3.70	

Fore. = February Forecast
C. E. = Current Expectations
N. C. = No Change Computed

FINANCIAL MARKETS

	Monetary Base		MI-B		M2		Federal Funds		T-Bills (6 Mos.)	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore	C. E.	Fore.	C. E.
September, 1979	151.0	151.0	N.C.	383.2	N.C.	1499.7	11.43	11.43	10.18	10.18
October	152.5	152.5		383.9		1507.2	13.77	13.77	11.47	11.47
November	152.7	152.7		385.3		1514.5	13.18	13.18	11.87	11.87
December	153.7	153.7		387.7		1523.9	13.78	13.78	12.07	12.07
January	155.1	155.1		389.1		1532.5	14.02	13.92	12.20	11.85
February	155.7	N.C.		390.8		1542.3	14.39	N.C.	12.39	N.C.
March	156.3			392.3		1551.3	14.76		12.58	
April	157.6			395.3		1564.7	14.65		12.55	
May	158.8			397.8		1577.7	14.61		12.51	
June	159.7			399.6		1588.0	14.57		12.47	
July	160.6			401.5		1598.7	13.49		11.53	
August	161.6			404.0		1611.9	12.64		10.95	
September	162.5			405.9		1622.7	11.79		10.37	
October	163.5			407.9		1633.9	11.36		10.16	
November	164.5			410.4		1647.2	11.05		10.09	
December, 1980	165.4			411.8		1657.8	10.69		10.02	

	Aaa (Seasoned)		Municipals		Commercial Paper		90 Day CD's		Prime Rate	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
September, 1979	9.44	9.44	6.52	6.52	11.58	11.58	11.79	11.79	12.90	12.90
October	10.13	10.13	7.08	7.08	13.09	13.09	13.53	13.53	14.39	14.39
November	10.76	10.76	7.30	7.30	13.62	13.62	14.00	14.00	15.55	15.55
December	10.74	10.74	7.22	7.22	13.17	13.17	13.43	13.43	15.30	15.30
January	11.21	11.09	7.51	7.31	13.63	12.91	13.92	13.40	15.45	15.25
February	11.77	N.C.	7.89	N.C.	14.05	N.C.	14.29	N.C.	15.93	N.C.
March	12.33		8.32		14.53		14.72		16.12	
April	12.05		8.07		14.62		14.91		16.38	
May	11.92		7.96		14.60		14.85		16.35	
June	11.79		7.90		14.58		14.72		16.21	
July	11.63		7.73		13.74		13.99		15.45	
August	11.47		7.59		12.91		13.11		14.72	
September	11.31		7.47		12.03		12.36		14.02	
October	11.15		7.36		11.55		11.84		13.25	
November	11.05		7.29		11.26		11.49		13.03	
December, 1980	10.95		7.17		10.82		11.09		12.42	

Fore. = February Forecast
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**GSU
Economic
Forecasting
Project
Newsletter**

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Donald Ratajczak, Director

Monthly Projections
for Early April

MARCH WAS A RECESSION MONTH

Whether the economic weakness that was so apparent in March will signal the beginning of a recession remains to be seen. There is no question, however, that economic activity declined significantly in March. First, the index of hours worked dropped by almost 0.5%. The manufacturing workweek fell below 40 hours per week for the first time since April 1979. Employment declined by 140,000 as measured by payroll employment or by 297,000 as measured by household estimates. Even sensitive industrial prices declined sharply, by 2.2% in March. While credit constraints established by the Federal Reserve were responsible for some of the reduction in activity, March probably would have showed negative growth even if no anti-inflation program was forthcoming.

By the end of March, domestic auto sales were running only slightly above 6 million at annual rates and domestic auto producers were not anticipating producing more than 7 million at annual rates through the spring season. Also, housing sales in February reached a level 9% below the January and December rates and below the lowest sales month for 1974. Furniture sales also begin to soften noticably toward the end of the month. Thus, the long awaited recession appears to have begun.

Assessment of Administration Anti-Inflation Initiatives

If a recession was beginning even before the Administration proposed its anti-inflation program, the timing of a dramatic increase in the full employment budget surplus and the introduction of credit controls along with more restrictive portfolio behavior by the Federal Reserve is unusually unfortunate. Apparently, the Administration believes that by offering a one-time balanced budget for fiscal year 1981, the markets automatically will reduce their price pressures in calendar year 1980. Certainly, an administration that has shifted positions several times on economic matters, introducing a revised budget less than two months after a preliminary budget had been introduced, should not expect that its announcement of a balanced budget will immediately change inflationary anticipations. Indeed, anticipations probably will not change until reality begins to fall short of currently formulated anticipations. While such conditions probably will begin to develop late in the spring and in the early summer months of 1980, it is unlikely that significant reductions in inflationary anticipations will occur before the restricted forces from the revised budget for FY 1981 are being felt. Certainly, the restricted forces from the credit control program and increased taxes from the import fees and the withholding on dividends and interests (if enacted) will be felt prior to any revised estimates of inflationary anticipations. As a result, the induced slowdown in economic activity will largely fall on the volume of goods and services and on the level of employment.

The budget cutting moves by the Administration can be classified in three groups: intercept changes that do not change the rate of budget expansion, changes in the responsiveness of the budget to economic conditions, and shifts in the timing of budgetary expenditures. Actual reductions in intercept values on the budget expansion path are relatively modest. They include $1.7 billion of general revenue sharing, another $0.5 billion for local revenue sharing, some elimination of LEAA grants and a few other program curtailments. Changes in the responsiveness of the budget to economic conditions are virtually nonexistant. The only important change is the shift from bi-annual to an annual indexing for government retirees and foodstamp recipients. Most of the remaining programs, from deferral of the petroleum reserve to freezes on hiring to changes in expenditures from the highway and air trust funds should be viewed as expenditure delays rather than expenditures reductions. They will reduce budgetary pressures in FY 1981 but only at the expense of adding to budgetary needs in FY 1982 and beyond. Since deferrals constitute the bulk of budgetary restraints, the FY 1982 and FY 1983 budget may, in fact, be even larger than prior to these current revisions by the Administration. A balanced budget may be achieved in FY 1981 but is unlikely to persist in FY 1982 and beyond.

On the revenue side, there are some significant changes. First, the import fee which is designed to fall heavily upon gasoline usage will raise $11 billion. However, imports should not grow over time, so the fee itself should not be a continuously rising revenue raiser in subsequent years. Withholding on dividends and interests payments, if approved by Congress, will add revenues for only a single year. Some revenue gains may result from capturing income that previously went untouched but these changes are not substantial.

The budgetary changes are not fundamental changes in the direction of government activity. They reduce government spending in FY 1981 but do not significantly alter the problems outlined in the enclosed paper on the inflation problem. However, the restraining forces from the import fee will be felt in May. Fiscal restraint will shift dramatically before the end of this spring and will continue to shift dramatically through the remainder of calender year 1980.

The change in reserve requirements for managed funds by Federal Reserve banks and other banks and the requirement to deposit reserves at the Federal Reserve by all credit issuing entities with outstanding debt of more than $2 million has led to a sterilization of $2 billion in potential reserves. In addition, the discussion of credit card restraints appears to have accelerated the demand for currency. Since the beginning of this year, currency has been growing at a 11% annual rate. This currency shift probably has sterilized nearly another $1 billion of potential reserves. The entire impact of this credit restraining activity should be in place before April 14, when the money market funds are required to deposit 15% on any deposit increases in their funds. The banking system adjusted to these restrictions by April 2. Thus, except for open market operations, the administered shift in the supply of money was completed early in April. If these changes lead to reduction in the demand for economic activity, as we expect, interest rates may already have peaked.

In addition to the reserve changes and some modest tightening in the supply of Federal Reserve liabilities to the monetary system, as evidenced by a slowing in the growth of the monetary base to a 7.7% annual rate in recent weeks, the Federal Reserve has asked the banking system to restrain their growth in commercial and industrial loans to the 6-9 percent range. In 1979, these loans grew 13% and were growing at a 16% rate in the fourth quarter. Thus, commercial banks are requested to sharply curtail the growth of loan activity. Given the significant volatility in long-term debt instruments and the unprofitability of consumer loans, the burden of this restraining forces will fall upon real estate and consumer durable loan activity. Thus, the weak sectors of the economy will weaken further. A serious question can be raised about whether a further $1 billion reduction in activity in these weak industries will have the same restraining effect upon inflation as a $1 billion reduction in activity over all industries. For that reason, it appears that the credit restraints will have an unusually modest impact upon slowing underlying inflation while substantially aggravating already seriously slowing trends in the automobile and housing industries. Furthermore, the timing of these restraints probably is extremely unfortunate.

Certainly, if a recession already was beginning, these shifts in fiscal and monetary policies are exactly the inappropriate programs to set in place at the present time. They will reduce inflation by more than otherwise would have occurred, but their anti-inflation impact is relatively modest. On the other hand, they exacerbate an already developing weakness in real economic activity. Anyone who believes that a mild recession is the most likely event as long as these programs remain in place is anticipating conditions that are unlikely to develop.

Monthly Highlights
March 1980

Personal income, +0.6%; disposable income, +0.5%; industrial production, -0.4%; housing starts, -8.5%; housing permits, -9.3%; construction expenditures, -2.5%; durable goods orders, -0.5%; orders for nondefense capital goods, +1.3%; business inventories, +1.4%; CPI, +1.3%; merchandise trade deficit (old basis), -$4.05 billion; leading indicators, -1.8%.

Monthly Highlights
April 1980

Payroll employment, -55,000; hours worked, -0.2%; unemployment, 6.4%; personal income, +0.7%; disposable income, +0.7%; retail sales, -0.7%; auto sales, 9.0 million; industrial production, -0.3%; housing starts, -5.4%; housing permits, -6.6%; construction expenditures, -2.8%; durable goods orders, +0.3%; orders for nondefense capital goods, -0.4%; business inventories, +1.3%; CPI, +1.2%; PPI, +1.2%, merchandise trade deficit (old basis), -$3.62 billion; leading indicators -0.9%; M-1B, +7.9%; M-2, +8.5%.

Current Profile of GNP

	% Change 1980-1	% Change 1980-2	% Change 1980-3	% Change 1980-4
Change in Real Output	+0.2	-2.9	-2.9	-1.4
Price Deflator	10.2	9.7	8.9	9.7
Nominal GNP	10.4	6.4	5.7	8.2

Commentary

Employment

Virtually all the decline in payroll employment during March was concentrated in the construction industry. Weakness was apparent also in building materials and auto activity but this weakness was offset by modest gains in the service sector. The degree of weakness registered for payroll employment and the 0.5% decline in the index of hours worked may be overstated as a result of a return to more normal seasonal conditions following unusual seasonal factors during the winter. Nevertheless, the decline in the workweek in manufacturing seems to suggest that weakness is beginning to intensify. In addition, the index recording the percentage of firms experiencing increases in employment fell below 50%. Also, household employment declined by 297,000 with the bulk of this reduction occurring for the male segment. The male head-of-household had now increased in unemployment by nearly a percentage point in the last 4 months. This strongly suggests that economic conditions are weakening significantly.

The bad news in the employment reports for March was a surge in the hourly earnings index by 1.0% during the month to a level 8.8% above previous year levels. This is the highest year over year increase during this inflationary cycle. Of course, the magnitude of the shift may be caused by poor seasonals in earlier months, but the trend definitely is toward a modest wage explosion.

Personal Income and Outlays

The March estimate of personal income should not be very high as a sharp decrease in hours worked offset more than half the increase in the hourly earnings index. In addition, farm incomes are continuing to drop sharply. Because of an upward revision in property income, the estimate of personal savings was revised upward in the February report to a level of 3.4% for January. While the savings rate apparently declined marginally in February, current evidence suggests that it grew substantially in March. Indeed, personal outlays in March probably declined modestly from February levels.

Seasonals probably accounted for some of the continued erosion in retail sales in March. Certainly, the absence of any expansion in the dollar value of nondurable sales probably was caused by a shift in seasonal patterns. On the other hand, the plunge in auto sales appears to be more fundamental. While retail sales in the first quarter grew 10.4% above fourth quarter levels, the March figure was 1.4% below the quarterly average. Thus, a definite slowing in the growth of retail sales almost certainly should develop in the second quarter.

Construction

Single-family housing sales in February have fallen to 539,000. Inventories continue to appear very light, but the sharp erosion in sales has now increased the months of sales contained in existing inventories to 9.2 months. Thus, further erosion in construction activity is anticipated. In addition, hours worked in the construction industry fell 7% in March. Since nonresidential construction probably did not decrease, this suggests that housing starts declined by even more than 7%.

After 3 months of no change, the implicit deflator for construction expenditures increased by 1% in February. It now appears that inflation in the construction sector will be growing near double-digit rates despite weakness in housing sales during the second quarter. Residential construction is falling by $2 billion per month from its December peak. In addition, public construction is beginning to drop back from its January high. In both cases, seasonal factors may have overstated the magnitude of construction spending. For that reason, a sharp drop in construction expenditures cannot be ruled out in March. While private nonresidential and public construction may resume their rates of increase during the spring quarter, residential construction probably will accelerate its rate of decline. By the summer months, all construction may be trending downward. For this reason, it appears that construction expenditures may fall nearly $10 billion below amounts forecasted in February before the bottom of the construction cycle is reached late in the fall quarter.

Business Activity

Manufacturing inventories are beginning to grow more rapidly than anticipated in the February forecast. Obviously, a substantial portion of this increase in caused by the rapid acceleration of inflation for industrial commodities. Nevertheless, a modest inventory problem seems to be developing. In January, the last month for which data is available, business inventories grew at a relatively modest rate as a result of declines in inventories of retail establishments. By March, however, these inventories are expected to grow very dramatically. This suggests that a modest inventory problem probably exists at the present time. On the other hand, the worst of the inventory accumulation may already be upon us.

Shipments of capital goods have increased dramatically during the winter months. Orders, on the other hand, have showed little growth. This suggests that shipments ought to slow before the end of the second quarter. Moreover, a sharp downward revision in shipments of defense goods for January strongly suggests that the dramatic increases everyone has been expecting for defense activities may not materialize. Thus, even capital goods industries should be experiencing economic weakness by the end of the second quarter.

Financial Markets

Sharp increases in inventories have exerted a sharp upward pressure upon commercial loans. However, the Federal Reserve actions of mid-March are moving to restrict the growth of those loans. If those pressures are successful, and they appear to be somewhat constraining, the demand for loanable funds may begin to recede by mid-April. Since the supply constraints upon credit markets should be completed, short-term interest rates could begin to decline before the end of the month. Because the recession now appears to be more severe than we originally thought and because inflationary pressures are receding slightly more rapidly than previously had been expected, interest rates in short-term markets may fall much more sharply than had been anticipated. On the other hand, short-term rates are far above values forecasted during February. Thus, we expect that the prime rate will fall only to 14% by the end of 1980 but continue to decline to the vicinity of 11% sometime in 1981. Corporate AAA bonds may actually fall below double-digit rates toward the end of 1981. All evidence suggests that interest rates have peaked.

Stock Market

The stock market needs to determine whether interest rates will fall more sharply than earnings. If interest rates are able to unwind rapidly, the stock market could rally modestly from current levels. However, the more likely event is that earnings will begin to plunge rapidly as IVA becomes a smaller factor in corporate earnings and as operating rates decline drastically. As a result, financial analysts probably will be revising downward their estimates of corporate profits for the remainder of 1980. At least into the summer months, these downward revisions may be more unsettling to the stock market than the favorable prospect of declining interest rates. For that reason, a test of the 740 level on the Dow Jones probably is likely. By the end of summer, however, the conditions of falling interest rates should prove to be more beneficial than the continuing downward trend of corporate earnings. Thus, a sustained rally in the stock market may develop some time in the summer, but the current value of equities appears to be too high for the earnings conditions that are unfolding.

Employment

	Payroll Employment		Index of Hours Worked		Household Employment		Unemployment Rate		Hourly Earnings Index	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
Oct. 1979	89982	89982	125.8	125.8	97474	97474	5.9	5.9	234.9	234.9
November	90100	90100	126.3	126.3	97608	97608	5.8	5.8	237.3	237.3
December	90231	90241	126.7	126.6	97912	97912	5.9	5.9	239.3	239.5
January	90536	90652	126.7	127.1	97804	97804	6.2	6.2	239.8	240.5
February	90602	90774	126.9	126.5	97918	97953	6.3	6.0	241.5	242.5
March	90668	90634	127.0	125.9	98032	97656	6.3	6.2	243.2	245.0
April	90875	90579	125.8	125.6	98305	97743	6.2	6.4	245.3	246.9
May	90878	90462	126.6	125.2	98408	97703	6.3	6.5	246.8	248.7
June	90881	90294	126.4	124.7	98511	97594	6.4	6.7	248.4	250.3
July	90915	90237	126.5	124.4	98543	97557	6.4	6.8	250.0	251.9
August	90973	90186	126.5	124.2	98576	97539	6.5	7.0	251.9	253.9
September	91031	90104	126.5	123.9	98609	97462	6.6	7.2	253.8	255.5
October	91055	90073	126.5	123.8	98653	97443	6.7	7.3	255.0	257.2
November	91086	90068	126.5	123.9	98722	97459	6.7	7.4	257.2	259.3
December	91117	90095	126.6	124.1	98791	97486	6.8	7.4	258.9	261.2
Jan. 1981	91145	90129	126.7	124.3	98846	97503	6.9	7.5	260.7	263.3

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
Oct. 1979	1.979	1.981	1.257	1.257	61.9	62.5	1.663	1.665	1.601	1.603
November	2.000	2.006	1.271	1.271	60.9	59.7	1.678	1.683	1.618	1.624
December	2.023	2.028	1.282	1.283	44.9	57.0	1.695	1.701	1.650	1.644
January	2.036	2.045	1.290	1.291	48.3	59.4	1.714	1.727	1.666	1.667
February	2.055	2.052	1.301	1.299	51.9	57.6	1.729	1.733	1.677	1.675
March	2.073	2.064	1.311	1.309	53.5	68.8	1.743	1.742	1.690	1.673
April	2.090	2.078	1.320	1.316	56.0	77.5	1.756	1.754	1.700	1.676
May	2.107	2.097	1.326	1.321	57.6	80.4	1.769	1.769	1.711	1.689
June	2.122	2.112	1.332	1.324	59.2	79.3	1.781	1.781	1.722	1.701
July	2.153	2.143	1.341	1.329	70.5	94.4	1.808	1.811	1.738	1.717
August	2.171	2.159	1.351	1.337	66.3	83.5	1.822	1.824	1.755	1.741
September	2.189	2.172	1.361	1.342	62.9	80.4	1.835	1.834	1.772	1.754
October	2.209	2.190	1.378	1.357	67.3	80.1	1.849	1.848	1.782	1.768
November	2.222	2.207	1.383	1.366	64.3	79.4	1.860	1.860	1.796	1.781
December	2.236	2.222	1.390	1.375	64.3	73.9	1.871	1.873	1.807	1.799
Jan. 1981	2.250	2.239	1.398	1.385	64.7	73.8	1.881	1.883	1.818	1.810

Fore. = February Forecast
C. E. = Current Expectations
N. C. = No Change Computed

RETAIL SALES

	Retail Sales		Non Auto Durables		Auto (Million Units)		Nondurable Sales		Auto Sales	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
October	75.61	75.58	11.45	11.22	9.4	9.4	50.14	49.93	14.02	14.44
November	76.18	76.42	11.23	11.16	9.6	9.6	50.93	50.74	14.02	14.52
December	77.02	77.15	11.40	11.33	10.5	10.5	51.36	57.21	14.26	14.62
January	78.18	79.46	11.60	11.58	11.5	11.6	51.78	52.20	14.80	15.69
February	78.35	78.21	11.58	11.44	10.5	10.7	52.12	51.63	14.65	15.15
March	78.69	77.22	11.59	11.51	9.5	10.1	52.63	51.67	14.47	14.05
April	78.89	76.67	11.63	11.57	9.3	9.0	53.03	52.13	14.23	12.97
May	79.10	77.30	11.64	11.63	9.2	8.8	53.44	52.79	14.02	12.88
June	79.39	77.67	11.66	11.68	9.2	8.6	53.92	53.23	13.81	12.76
July	80.04	78.31	11.69	11.73	9.2	8.7	54.48	53.64	13.87	12.98
August	80.75	79.55	11.86	11.91	9.2	8.9	54.95	54.21	13.94	13.43
September	81.48	79.99	11.88	11.85	9.2	9.0	55.46	54.52	14.14	13.62
October	81.74	80.60	11.80	11.92	9.0	8.9	55.93	55.11	14.01	13.57
November	82.36	81.11	11.90	12.01	9.1	8.9	56.31	55.41	14.15	13.63
December	82.67	81.97	11.91	12.07	9.0	9.0	56.65	55.95	14.11	13.95
Jan. 1981	83.03	82.39	11.95	12.12	9.1	9.0	56.99	56.27	14.23	14.00

INDUSTRIAL PRODUCTION

	Industrial Production		Capacity Utilization	
	Fore.	C. E.	Fore.	C. E.
October	152.3	152.2	84.9	84.6
November	151.8	152.1	84.4	84.3
December	152.2	152.2	84.4	84.0
January	152.2	152.7	84.2	84.1
February	152.4	153.0	84.1	84.1
March	152.3	152.4	83.8	83.4
April	151.3	151.9	83.0	82.7
May	150.1	151.2	81.8	82.0
June	149.3	150.5	81.0	81.3
July	149.0	150.1	80.6	80.9
August	148.8	149.7	80.3	80.4
September	148.5	149.3	80.0	80.0
October	148.3	149.1	79.7	79.5
November	148.0	149.0	79.3	79.2
December	147.8	149.1	79.1	79.0
Jan. 1981	147.7	149.0	78.7	78.7

Fore. = February
C. E. = Current
N. C. = No Change Computed

HOUSING

	Housing Starts		Single Family Starts		Housing Permits		Construction Expenditures (Current)		Construction Expenditures (Real)	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
Oct. 1979	1.762	1.710	1.161	1.139	1.542	1.542	238.4	238.7	115.8	115.7
November	1.522	1.522	0.966	0.980	1.263	1.263	237.4	237.7	114.7	114.5
December	1.527	1.517	0.972	1.036	1.204	1.244	239.6	242.0	115.8	116.6
January	1.473	1.424	0.963	1.006	1.210	1.264	239.8	250.0	114.9	120.4
February	1.451	1.334	0.936	0.774	1.194	1.163	238.9	242.1	113.3	115.4
March	1.429	1.229	0.909	0.692	1.183	1.064	238.0	236.2	111.8	111.6
April	1.306	1.166	0.852	0.657	1.062	0.998	235.8	229.8	110.1	107.6
May	1.249	1.073	0.786	0.595	1.006	0.892	234.7	225.3	109.0	103.8
June	1.258	1.065	0.720	0.612	1.022	0.843	233.6	225.4	107.9	103.3
July	1.286	1.124	0.783	0.673	1.057	0.851	234.1	226.4	107.3	103.1
August	1.331	1.216	0.838	0.748	1.116	0.966	234.7	227.6	106.6	102.9
September	1.415	1.255	0.893	0.793	1.186	1.013	235.3	229.2	106.0	102.8
October	1.389	1.285	0.862	0.830	1.174	1.038	237.0	231.6	106.2	102.9
November	1.420	1.352	0.889	0.890	1.201	1.097	239.2	234.1	106.5	103.3
December	1.451	1.342	0.916	0.863	1.235	1.087	241.4	236.3	106.8	104.2
Jan. 1981	1.483	1.386	0.947	0.884	1.268	1.116	243.3	238.5	107.1	104.2

HOUSING CONTINUED

	Private Non Residential		Public Construction		Residential Construction	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
Oct. 1979	86.3	85.3	52.9	52.8	99.2	100.7
November	86.4	84.7	51.9	51.9	99.1	101.1
December	88.6	87.9	51.2	52.1	99.8	102.0
January	88.7	90.9	51.8	59.4	99.3	99.7
February	88.8	89.1	52.5	55.2	97.6	97.8
March	88.9	88.3	53.2	53.4	95.9	94.5
April	90.6	89.3	53.1	52.7	92.1	87.8
May	91.4	90.1	53.6	52.9	89.7	82.3
June	92.2	90.9	54.1	53.3	87.3	81.2
July	93.0	92.1	54.5	53.9	86.6	80.4
August	93.4	92.6	54.8	54.4	86.5	80.6
September	93.8	93.4	55.1	54.7	86.4	81.1
October	94.5	93.6	55.6	55.0	85.9	83.0
November	95.3	94.1	56.0	55.1	87.9	84.9
December	96.1	94.7	56.4	55.4	88.9	86.2
Jan. 1981	96.9	95.0	56.8	55.8	89.9	87.7

Fore. = February Forecast
C. E. = Current Expectations
N. C. = No Change Computed

BUSINESS ACTIVITY

	Manufacturers Inventories		Durable Goods Orders		Non-defense Capital Goods Orders		Non-defense Capital Shipments	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
Oct. 1979	223.5	223.5	76.40	76.66	20.78	21.00	20.02	20.10
November	226.2	226.2	75.42	75.42	21.42	21.42	19.60	19.60
December	228.1	228.1	76.67	77.75	22.77	22.86	20.17	20.22
January	230.3	232.0	78.43	82.03	22.95	23.87	20.21	21.02
February	232.7	234.5	76.13	81.98	21.63	21.93	20.26	21.34
March	235.3	237.5	75.87	81.57	21.42	22.22	20.31	21.54
April	238.1	240.6	75.26	81.82	21.09	22.13	20.53	21.83
May	240.4	242.3	76.12	79.97	21.15	21.62	20.73	21.69
June	242.7	244.7	76.85	79.63	21.27	21.43	20.93	21.72
July	245.0	246.7	77.71	78.41	21.53	21.03	21.15	21.53
August	246.9	248.5	80.15	78.02	23.41	21.32	21.07	21.46
September	248.6	250.4	79.92	78.93	22.28	21.67	20.99	21.61
October	249.7	252.0	80.68	79.41	22.73	21.81	21.18	21.75
November	251.4	253.5	81.21	78.86	23.15	21.62	21.37	21.84
December	253.0	255.1	81.59	80.11	23.39	22.11	21.56	22.01
Jan. 1981	254.6	256.6	81.92	80.16	23.52	22.29	21.74	22.13

	Business Inventories		Defense Shipments	
	Fore.	C. E.	Fore.	C. E.
Oct. 1979	421.1	421.2	3.01	3.01
November	434.2	424.4	3.14	3.14
December	427.9	426.3	3.23	3.18
January	431.5	431.5	3.24	3.19
February	435.3	434.5	3.25	3.19
March	439.8	442.0	3.26	3.24
April	444.2	447.7	3.32	3.30
May	447.9	451.6	3.38	3.37
June	452.7	456.0	3.44	3.43
July	455.3	459.7	3.47	3.47
August	458.8	463.2	3.51	3.50
September	462.9	466.7	3.55	3.53
October	464.9	469.7	3.60	3.52
November	468.3	472.5	3.65	3.57
December	471.7	475.5	3.70	3.64
Jan. 1981	474.4	478.3	3.75	3.70

Fore. = February Forecast
C. E. = Current Expectations

PRICES

	CPI (unadjusted)		PPI Finished Goods		PPI-Industrial Commodities (unadjusted)		Agricultural Prices (unadjusted)		IVA Corp. (annual rate)	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
October	225.4	225.4	223.7	223.7	248.5	249.0	236	236	53.5	50.5
November	227.5	227.5	225.9	225.9	250.2	250.6	238	238	44.3	47.6
December	229.9	229.9	227.8	227.8	252.8	252.8	238	238	42.9	51.9
January	232.5	233.2	230.9	232.1	256.9	260.3	237	236	53.1	54.4
February	234.8	236.4	233.0	235.4	260.2	265.4	240	238	54.2	63.2
March	237.1	239.2	235.2	238.2	263.5	268.2	241	234	55.3	60.9
April	239.9	242.1	237.8	241.2	267.1	271.7	249	232	50.6	57.3
May	242.8	245.0	240.6	244.2	270.8	274.3	251	237	45.5	53.1
June	245.7	247.2	243.3	246.3	274.5	277.6	260	245	40.4	51.4
July	247.9	249.4	245.5	248.3	277.2	280.5	267	253	39.6	49.1
August	250.2	251.7	247.6	250.5	279.3	282.9	264	260	38.4	46.3
September	252.5	253.7	249.9	252.4	281.4	285.3	269	260	37.2	40.2
October	254.3	255.7	251.7	254.2	284.4	288.0	264	263	34.1	37.9
November	256.1	258.0	253.4	256.5	287.3	290.7	261	259	33.2	36.5
December	257.9	260.0	255.1	258.3	290.2	293.6	264	262	32.3	33.8
Jan. 1981	259.7	262.4	256.9	260.7	293.1	296.5	267	266	30.9	31.9

MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators		Estimated GNP		Estimated GNP (1972 $)		Estimated GNP Deflator	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
October	-2018	-2018	138.4	138.6	2428	2440	1434	1439	1.6832	1.6960
November	-1420	-1620	136.6	136.0	2456	2459	1437	1441	1.7091	1.7059
December	-3080	-2920	136.6	135.6	2483	2472	1445	1441	1.7183	1.7157
January	-3055	-3600	136.9	135.2	2502	2501	1445	1443	1.7312	1.7332
February	-3099	-4137	137.3	134.9	2519	2521	1445	1442	1.7437	1.7478
March	-3143	-4056	136.6	132.5	2535	2534	1444	1438	1.7556	1.7623
April	-3329	-3620	135.7	131.3	2551	2547	1440	1435	1.7713	1.7755
May	-3428	-3512	135.2	130.7	2565	2559	1437	1430	1.7846	1.7900
June	-3527	-3619	134.6	129.9	2582	2568	1435	1426	1.7992	1.8002
July	-3411	-3463	134.1	129.7	2597	2581	1433	1422	1.8121	1.8146
August	-3373	-3274	134.5	130.8	2614	2596	1433	1421	1.8237	1.8267
September	-3335	-3345	135.4	131.3	2633	2605	1434	1416	1.8355	1.8399
October	-3026	-3274	136.5	132.0	2654	2629	1431	1415	1.8543	1.8582
November	-2975	-3129	137.1	132.3	2673	2644	1433	1414	1.8659	1.8699
December	-2924	-3092	137.9	133.0	2692	2662	1434	1415	1.8769	1.8819
Jan. 1981	-2865	-3143	138.6	133.4	2712	2681	1435	1415	1.8879	1.8943

Fore. = February Forecast
C. E. = Current Expectations
N. C. = No Change Computed

FINANCIAL MARKETS

Monetary

	Base		MI-B		M2		Federal Funds		T-Bills (6 Mos.)	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
Oct. 1979	152.5	152.3	N.C.	383.9	N.C.	1507.2	13.77	13.77	11.47	11.47
November	152.7	152.7		385.9		1514.5	13.18	13.18	11.87	11.82
December	153.7	154.0		387.7		1523.8	13.78	13.78	12.07	11.84
January	155.1	155.0		389.1		1532.8	14.02	13.82	12.20	11.84
February	155.7	156.1		392.8		1546.6	14.39	14.13	12.39	12.86
March	156.3	156.9		392.0		1549.9	14.76	16.66	12.58	15.10
April	157.6	157.6		394.5		1560.5	14.65	18.97	12.55	14.11
May	158.8	158.5		396.8		1572.6	14.61	17.86	12.51	13.36
June	159.7	159.3		398.7		1585.3	14.57	17.09	12.47	13.01
July	160.6	160.1		400.7		1594.3	13.49	16.41	11.53	12.47
August	161.6	161.0		402.9		1606.8	12.64	15.29	10.95	12.29
September	162.5	161.8		404.8		1617.9	11.79	14.43	10.37	12.01
October	163.5	162.7		407.1		1628.3	11.36	14.01	10.16	11.68
November	164.5	163.6		408.5		1643.9	11.05	13.61	10.09	11.42
December	165.4	164.5		410.3		1655.4	10.69	13.27	10.02	11.30
Jan. 1981	166.3	165.4		412.0		1667.6	10.27	12.93	9.73	11.16

	Aaa (Seasoned)		Municipals		Commercial Paper		90 Day CD'S		Prime Rate	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
Oct. 1979	10.13	10.13	7.08	7.08	13.09	13.09	13.53	13.53	14.39	14.39
November	10.76	10.76	7.30	7.30	13.62	13.57	14.00	13.90	15.55	15.55
December	10.74	10.74	7.22	7.22	13.17	13.24	13.43	13.43	15.30	15.30
January	11.21	11.09	7.51	7.35	13.63	13.04	13.92	13.39	15.45	15.25
February	11.77	12.38	7.89	8.16	14.05	13.78	14.29	14.30	15.93	15.63
March	12.33	12.96	8.32	9.17	14.53	16.76	14.72	17.55	16.12	18.01
April	12.05	12.82	8.07	9.04	14.62	16.95	14.91	17.73	16.38	19.38
May	11.92	12.09	7.96	8.34	14.60	16.63	14.85	17.46	16.35	18.96
June	11.79	12.02	7.90	8.27	14.58	16.09	14.72	16.67	16.21	18.22
July	11.63	11.79	7.73	8.02	13.74	15.73	13.99	16.29	15.45	17.81
August	11.47	11.53	7.59	7.84	12.91	14.93	13.11	15.49	14.72	17.04
September	11.31	11.49	7.47	7.80	12.03	14.09	12.36	14.68	14.02	16.24
October	11.15	11.38	7.36	7.69	11.55	13.76	11.84	14.11	13.25	15.54
November	11.05	11.30	7.29	7.57	11.26	13.53	11.49	13.98	13.03	15.39
December	10.95	11.14	7.17	7.46	10.82	13.15	11.09	13.67	12.42	15.08
Jan. 1981	10.82	10.99	7.06	7.34	10.52	13.01	10.75	13.43	12.00	14.83

Fore. = February
C. E. = Current Expectations
N. C. = No Change Computed

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GSU Economic Forecasting Project Newsletter
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Monthly Projections for Early May

REAL ACTIVITY PLUNGES AT DOUBLE-DIGIT RATE IN APRIL

April's collapse in economic activity was confirmed by a 1.3% decline in the index of hours worked. This decline rivals the largest monthly weakness recorded during the 1973-75 recession. Moreover, an abrupt decline in economic activity almost never can be fully adjusted in the index of hours worked during the month that a rapid decline begins. Thus, real economic activity undoubtedly declined by double-digit rates during April. Our own monthly estimates of real economic activity show that real GNP in April fell nearly 2% below GNP in December. Unfortunately, nothing suggests that this April weakness will be as fleeting as the economic decline that occurred last April.

Recessionary weakness is not occurring only in the automobile, housing, and farm sectors. Only 28% of all industries recorded any increases in employment during the month of April. While employment was weakening by more than 3% in the transporation and building materials industries, it also began to decline in fabricated metals, rubber and plastics, transportation services, wholesale trade, and retail trade. Geographically, the unemployment rate increased by more than a percentage point in California, Michigan, Ohio, and Pennsylvania. On the other hand, the unemployment rate actually decreased in New Jersey and Texas and remains very modest in Florida and Massachusetts. The apparel and textiles industries have not yet felt any weakness. However, the credit restrictions that were imposed in mid-March appear to have stifled consumer activity. Further weakness almost certainly will be registered in the employment statistics in the months ahead.

Of course, the employment statistics are preliminary and may be revised substantially in the months ahead. However, the dramatic reversal in credit markets clearly shows that demand is collapsing. The largest single monthly decline in short-term interest rates ever recorded appears to have occurred despite a substantial reduction in the money supply. Recent changes in banking regulations have reduced the interest sensitivity of the economy. As a result, small changes in economic activity can lead to dramatic changes in interest rates. However, the strength of the bond market rally has far surpassed any previous projections. Only the dramatically low estimates of economic activity that we are projecting for

for April can begin to explain the magnitude of that dramatic reversal of credit market pressures.

As the month unfolds, economic statistics should provide several surprises for the uninitiated. We estimate that April's personal income actually declined. Retail sales appear to have fallen so sharply that total personal outlays may fall in April. Industrial production is expected to decline more than 1.5%. Construction is unlikely to repeat last month's largest decline reported in the past 36 years, but a further large decline almost certainly occurred. Housing starts should fall below 1 million and may threaten the low point of the 1974-75 recession. We already know that farm prices registered a 4.5% decline, but some people remain skeptical that industrical prices will fall below the double-digit rate of increase, as shown by our price index survey. However, the dramatic reversal in short-term interest rates already is leading to declines in mortgages rates. Mortgage finance accounts for 10% of the consumer price index and has been increasing by 3% per month in the first three months of this year. When negative changes in that component begin to appear in May and beyond, more than 0.4% points will have been shaved from the monthly CPI as a result of that one category. When sharp decreases in agricultural prices and the slowing of energy prices also are considered, inflation may fall below the double-digit range for several months during the summer. When agricultural prices inevitably begin to rise by late summer, double-digit inflation may return.

(It should be noted that the quarterly profile presented in these monthly projections are derived from monthly estimates of economic activity that are estimated from an abbreviated model. They are highly suggestive of the economic path that we anticipate in the months ahead, and are especially valuable in measuring current conditions; but they should not replace the more complete quarterly projections that will be available in about a week.)

Monthly Highlights
April 1980

Personal income, -0.1%; disposable income, -0.1%; personal outlays, -0.2%; retail sales, -1.3%; auto sales, 9.0 million; industrial production, -1.5%; housing starts, -7.9%; housing permits, -13.7%; construction expenditures, -5.0%; durable goods orders, -2.0%; orders for nondefense capital goods, -4.6%; business inventory, +0.8%; CPI, +0.9%; PPI, +0.3%; merchandise trade deficit, -$2.83 billion; leading indicators, -1.6%; MI-B, -7.4%; M2, -0.2%.

Monthly Highlights
May 1980

Payroll employment, -317,000; hours worked, -0.7%; unemployment, 7.1%; personal income, +0.4%; personal outlays, +0.5%; retail sales, -0.1%; auto sales, 8.7 million; industrial production, -0.7%; housing starts, -2.5%; housing permits, -1.7%; construction expenditures, -2.0%; durable goods orders, -1.6%; orders for nondefense capital goods, -2.0%; business inventories, +0.5%; CPI, +0.8%; PPI, +0.7%; agricultural prices, +1.5%; merchandise trade deficits, -$3.42 billion; leading indicators, -1.2%; M1-B, +6.0%; M2, +8.1%.

Current Profile of GNP

	Adjusted % Change 1980-1	% Change 1980-2	% Change 1980-3	% Change 1980-4	% Change 1981-1
Change in Real Output	+1.7%	-9.0%	+1.2%	+1.2%	-0.8%
Price Deflator	9.4	9.6	9.0	11.4	9.7
Nominal GNP	11.2	-0.3	10.4	12.8	8.8

COMMENTARY

Employment

Both estimates of employment showed nearly a 500,000 erosion of jobs during April. Our estimates continue to show an unusual narrowing of the gap between the household and the payroll estimates of employment. Thus, rapid increases in unemployment may not persist in the next few months. On the other hand, the federal payrolls improved in April by 68,000 as a result of the hiring of census takers. In April, census takers accounted for nearly 150,000 jobs. By the end of June, those jobs will no longer exist.

According to the hourly earnings index, the anticipated wage explosion is not developing. In April, adjusted wages were only 8.3% above previous year levels. Some problems are developing in manufacturing and transportation, however, where hourly earnings are 9.2% and 10.3% respectively above previous year levels.

Personal Income and Outlays

March estimates of personal income were distorted upward by a one time $1.9 billion distribution to California employees on their state sickness program. This led to an unexpected reduction in the employee contribution to social insurance. In April, a return to more normal contribution levels will tend to lower the estimates of personal income. Because of upward revisions in estimates of payroll employment and hourly earnings for February and March, it appears that the wage and salary component of personal income will be revised upward by about $2 billion for both of those months. These revisions have not been included in our data, but they have been incorporated in our projections. The credit restrictions which were announced on March 14 appear to have increased the savings rate slightly. However, we have had some difficulty in deriving estimates of personal outlays from the appropriate components in the report on retail sales.

We believe personal outlays probably declined slightly in April despite estimates of declines in retail sales which are no greater than in the two previous months. First, employment in the service industries showed little growth in April, suggesting that expenditures on services probably slowed from the nearly $10 billion per month rate of increase that has been registered in recent months. Second, the weakness in retail sales is largely concentrated in durable goods activity. Apparently, durable goods sales translate more easily into the estimates of personal outlays than is the case for nondurable goods activity. With inflation unwinding so dramatically, and unemployment rising substantially, the savings rate could leap upward. Such an outcome has not been anticipated in this already dismal report.

Construction

In Atlanta and other previously strong housing areas, the slump did not begin until the second half of March. Thus, further weakness almost certainly is assured for April. In March, the index of hours worked in construction slumped 7%, which was followed by a 5.5% reduction in real construction expenditures. In April, the index of hours worked fell another 3%. Thus, another substantial decline in real construction expenditures is almost certain.

The good news in construction is that the entire economy is weakening so rapidly that short-term interest rates are falling well below previous anticipations. The six-month money market certificate and the 30-month certificates have increased the sensitivity of the cost of money in lending institutions to changing short-term rates. The cost of funds acquired by savings and loan associations will fall substantially in May. Already, the FHA and VA mortgage rates have fallen from their 14% April peaks. Conventional mortgage rates are expected to begin declining below 14% before the end of May. While the slow decline in the prime rate will continue to delay construction activity until most of the building season has passed, it now appears that housing starts will not fall below 1 million for the year. Our current estimates are 1.16 million starts in 1980. Moreover, housing may prevent the current recessionary free-fall from developing into a 1975 bust.

The preliminary estimates for March also show that inflation will not be intense in construction. The implicit price deflator for construction remained unchanged between November and January before jumping a full percentage point in February. However, the index then declined 0.3% in March and is expected to show another modest decline in April. While construction inflation is expected to reappear in the second half of 1980, after housing activity has bottomed out, inflation will be less intense in this sector than previously expected.

Business Activity

Signs of unanticipated inventory investment appeared in the March index for manufacturing inventories. Apparently, the 7 million unit production schedule programmed for April did not coincide with the 6 million sales levels for domestic automobiles. Thus, another substantial increase in manufacturing inventories probably developed in April. Some analysts are anticipating that further accelerations in unanticipated inventories will require substantial increases in credit market pressures during the next few months. While such an outlook cannot be completely dismissed, final sales appear to have plunged at a double-digit real rate of decline during April without creating any substantial increase in unanticipated inventories. High interest rates and credit restrictions appear to be responsible for this unusually rapid adjustment of inventories to changing sales conditions. As it is unlikely that final sales will continue to plunge at the April rate, unanticipated inventories will become less and less likely in the months ahead. It should also be noted that the dramatic reduction in some industrial prices is leading to one of the most rapid reversals in estimates of inventory valuations. Thus, even unanticipated inventories will be expanding at a smaller dollar rate of increase than would develop without this significant moderation of industrial inflation.

The sharp increase in nondefense capital goods orders for March runs counter to prevailing economic conditions. Indeed, all other durable goods tended to decline. The drop in durable goods orders could be even more dramatic in April, as vanishing steel orders, reduced auto shipments, and a slide in nondefense orders all should coincide.

One explanation given for sharp increases in defense shipments in March is the desire of defense contractors to receive payments on their orders as quickly as possible. In other words, defense contractors have been using the procurement process to finance their alternative activities. Now that interest rates have subsided, defense shipments ought to slow and could even decline for short periods of time in some future months.

Financial Markets

A brief study of the preliminary estimates of interest rates during April seems to confirm that declining economic activity was responsible for the dramatic reversal in credit market pressures. Indeed, the federal funds rate actually averaged higher in April than in March while all other rates moved downward. The fact that the monetary aggregates declined in April merely confirms that demand conditions were responsible for the interest rate peak. In May, some ease in supply conditions is anticipated. Given the likelihood that economic activity will continue to decline, most rates should be below their fall levels before the beginning of summer.

At the present time, we are assuming that the especially restrictive monetary policy currently in place will be eased. While fiscal policy is expected to remain relatively tight, some moderation is anticipated by the end of the year. Under these assumptions, and given the dramatic way by which final demand is eroding at the current time, some improvement in economic activity is anticipated during the summer. Moreover, agricultural inflation is expected to accelerate sharply in the second half of 1980. Industrial inflation also may become more intense following the unwinding of international speculative positions. Thus, most interest rates may reach temporary bottoms by the beginning of summer. Of course, a continuation of very restrictive monetary policy probably would lead to a substantial change in the consumer savings rate. Under such conditions, industrial inflation would be modest and recessionary pressures would remain intense through most of the year. In that case, most interest rates would be well into single digit levels by the fall. While this latter condition is not likely, it is possible. Therefore, greater investment opportunities probably could be lost by waiting for a correction in the bond market than by fully committing long-term investment positions at the present time.

Stock Market

At the present time, the stock market appears to be cheered by the decline in interest rates and is ignoring the equally severe decline in earning potential. As the drop in interest rates is a fact, while the decline in earnings remains a conjecture, the market has decided to move towards the upside. The severity of the April decline in economic activity could lead to shockingly abrupt reductions in earnings projections for many basic industries. While the erosion of inventory profit is reducing genuine profits by a far smaller amount than after tax profits, some downside risk must exist in equity values of the current time. A testing of the 740 level still seems warranted.

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Employment		Unemployment Rate		Hourly Earnings Index	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
Nov. 1979	90100	90100	126.3	126.3	97608	97608	5.8	5.8	237.3	237.3
December	90231	90241	126.7	126.6	97912	97912	5.9	5.9	239.3	239.5
January	90536	90652	126.7	127.1	97804	97804	6.2	6.2	239.8	240.5
February	90602	90845	126.9	126.8	97918	97953	6.3	6.0	241.5	242.6
March	90668	90799	127.0	126.1	98032	97656	6.3	6.2	243.2	245.1
April	90875	90320	126.8	124.5	98305	97154	6.2	7.0	245.3	245.6
May	90878	90013	126.6	123.6	98408	96989	6.3	7.1	246.8	247.5
June	90881	89934	126.4	123.3	98511	97006	6.4	7.3	248.4	249.7
July	90915	90003	126.5	123.3	98543	97146	6.4	7.4	250.0	251.7
August	90973	90088	126.5	123.6	98576	97214	6.5	7.5	251.9	252.9
September	91031	90240	126.5	123.9	98609	97383	6.6	7.5	253.8	254.9
October	91055	90403	126.5	124.3	98653	97569	6.7	7.6	255.0	256.6
November	91086	90611	126.5	124.5	98722	97814	6.7	7.6	257.2	258.7
December	91117	90591	126.6	124.2	98791	97767	6.8	7.8	258.9	260.8
January	91145	90677	126.7	124.5	98846	97886	6.9	7.9	260.7	261.9
Feb. 1981	91346	90583	126.9	124.2	99026	97752	6.9	8.2	263.5	263.9

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
Nov. 1979	2.000	2.006	1.271	1.271	60.9	59.7	1.678	1.683	1.618	1.624
December	2.023	2.028	1.282	1.283	44.9	57.0	1.695	1.701	1.650	1.644
January	2.036	2.047	1.290	1.293	48.3	59.0	1.714	1.728	1.666	1.669
February	2.055	2.054	1.301	1.301	51.9	58.0	1.729	1.735	1.677	1.677
March	2.073	2.069	1.311	1.310	53.5	59.8	1.743	1.747	1.690	1.687
April	2.090	2.067	1.320	1.303	56.0	62.4	1.756	1.746	1.700	1.683
May	2.107	2.076	1.326	1.305	57.6	61.7	1.769	1.752	1.711	1.691
June	2.122	2.091	1.332	1.312	59.2	59.3	1.781	1.764	1.722	1.705
July	2.153	2.119	1.341	1.322	70.5	67.8	1.808	1.787	1.738	1.720
August	2.171	2.137	1.351	1.332	66.3	68.8	1.822	1.802	1.755	1.735
September	2.189	2.158	1.361	1.345	62.9	68.4	1.835	1.819	1.772	1.751
October	2.209	2.182	1.378	1.362	67.3	74.1	1.849	1.838	1.782	1.764
November	2.222	2.202	1.383	1.375	64.3	71.6	1.860	1.854	1.796	1.783
December	2.236	2.217	1.390	1.382	64.3	74.6	1.871	1.867	1.807	1.793
January	2.250	2.226	1.398	1.391	64.7	67.3	1.881	1.873	1.818	1.806
Feb. 1981	2.269	2.240	1.416	1.397	65.2	69.7	1.906	1.885	1.841	1.816

Fore. = February Forecast
C. E. = Current Expectations
N. C. = No Change Computed

RETAIL SALES

	Retail Sales		Non Auto Durables		Auto (Million Units)		Nondurable Sales		Auto Sales	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
Nov. 1979	76.18	76.42	11.23	11.16	9.6	9.6	50.93	50.74	14.02	14.52
December	77.02	77.15	11.40	11.33	10.5	10.5	51.36	51.21	14.26	14.62
January	78.18	79.46	11.60	11.58	11.5	11.6	51.78	52.20	14.80	15.69
February	78.35	78.21	11.58	11.44	10.5	10.5	52.12	51.63	14.65	15.15
March	78.69	77.22	11.59	11.51	9.5	10.1	52.63	51.67	14.47	14.05
April	78.89	76.25	11.63	11.48	9.3	9.0	53.03	51.83	14.23	12.94
May	79.10	76.17	11.64	11.53	9.2	8.7	53.44	52.00	14.02	12.64
June	79.39	76.65	11.66	11.67	9.2	8.8	53.92	52.09	13.81	12.89
July	80.04	77.67	11.69	11.80	9.2	8.9	54.48	52.74	13.87	13.13
August	80.75	78.62	11.86	11.93	9.2	8.8	54.95	53.59	13.94	13.10
September	81.48	79.72	11.88	12.09	9.2	8.9	55.46	54.32	14.14	13.31
October	81.74	80.43	11.80	12.05	9.0	9.3	55.93	54.31	14.01	14.07
November	82.36	81.79	11.90	12.13	9.1	9.5	56.31	55.07	14.15	14.59
December	82.67	81.93	11.91	12.12	9.0	9.3	56.65	55.49	14.11	14.32
January	83.03	82.78	11.95	12.18	9.0	9.4	56.99	56.08	14.23	14.52
Feb. 1981	84.08	82.03	12.16	12.16	8.9	9.0	57.57	55.91	14.35	13.96

INDUSTRIAL PRODUCTION

	Industrial Production		Capacity Utilization	
	Fore.	C. E.	Fore.	C. E.
Nov. 1979	151.8	152.1	84.4	84.3
December	152.2	152.2	84.4	84.0
January	152.2	152.7	84.2	84.1
February	152.4	152.4	84.1	83.9
March	152.3	151.2	83.8	83.0
April	151.3	149.1	83.0	81.6
May	150.1	148.0	81.8	80.6
June	149.3	147.6	81.0	80.1
July	149.0	147.5	80.6	79.8
August	148.8	147.8	80.3	79.7
September	148.5	148.2	80.0	79.7
October	148.3	148.7	79.7	79.9
November	148.0	148.8	79.3	79.7
December	147.8	148.5	79.1	79.3
January	147.7	148.8	78.7	79.3
Feb. 1981	147.6	148.5	78.4	78.9

Fore. = February Forecast
C. E. = Current Expectations
N. C. = No Change Computed

HOUSING

	Housing Starts		Single Family Starts		Housing Permits		Construction Expenditures (Current)		Construction Expenditures (Real)	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
Nov. 1979	1.522	1.522	0.966	0.980	1.263	1.263	237.4	237.7	114.7	114.5
December	1.527	1.517	0.972	1.036	1.204	1.244	239.6	242.0	115.8	116.6
January	1.473	1.419	0.963	1.002	1.210	1.264	239.8	250.0	114.9	120.4
February	1.451	1.332	0.936	0.789	1.194	1.142	238.9	243.1	113.3	115.9
March	1.429	1.041	0.909	0.606	1.183	0.941	238.0	229.0	111.8	109.5
April	1.306	0.959	0.852	0.543	1.062	0.812	235.8	217.6	110.1	104.2
May	1.249	0.935	0.786	0.509	1.006	0.798	234.7	213.3	109.0	101.4
June	1.258	0.982	0.720	0.533	1.022	0.863	233.6	215.2	107.9	101.5
July	1.286	1.055	0.783	0.592	1.057	0.923	234.1	221.0	107.3	103.4
August	1.331	1.130	0.838	0.651	1.116	1.006	234.7	226.2	106.6	104.9
September	1.415	1.208	0.893	0.713	1.186	1.023	235.3	231.9	106.0	106.7
October	1.389	1.319	0.862	0.816	1.174	1.143	237.0	239.2	106.2	109.2
November	1.420	1.292	0.889	0.799	1.201	1.073	239.2	242.4	106.5	109.6
December	1.451	1.261	0.916	0.815	1.235	1.109	241.4	246.2	106.8	110.5
January	1.483	1.347	0.947	0.882	1.268	1.178	243.3	248.7	107.1	110.7
Feb. 1981	1.615	1.454	1.056	0.963	1.417	1.213	246.7	252.1	107.7	111.3

HOUSING CONTINUED

	Private Non Residential		Public Construction		Residential Construction	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
Nov. 1979	86.4	84.7	51.9	51.9	99.1	101.1
December	88.6	87.9	51.2	52.1	99.8	102.0
January	88.7	90.9	51.8	59.4	99.3	99.7
February	88.8	89.0	52.5	56.4	97.6	97.7
March	88.9	86.8	53.2	52.6	95.9	89.7
April	90.6	84.7	53.1	51.7	92.1	81.2
May	91.4	87.5	53.6	52.3	89.7	73.5
June	92.2	89.1	54.1	52.9	87.3	73.2
July	93.0	91.2	54.5	53.6	86.6	76.2
August	93.4	91.0	54.8	54.1	86.5	81.1
September	93.8	90.8	55.1	55.0	86.4	86.1
October	94.5	93.2	55.6	54.6	85.9	91.4
November	95.3	92.2	56.0	55.1	87.9	95.1
December	96.1	94.5	56.4	55.3	88.9	96.4
January	96.9	95.6	56.8	56.4	89.9	96.7
Feb. 1981	97.7	95.1	57.3	57.0	91.7	100.0

Fore. = February Forecast
C. E. = Current Expectations
N. C. = No Change Computed

BUSINESS ACTIVITY

	Manufacturers Inventories		Durable Goods Orders		Non-defense Capital Goods Orders		Non-defense Capital Shipments	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
Nov. 1979	226.2	226.2	75.42	75.42	21.42	21.42	19.60	19.60
December	228.1	228.1	76.67	77.75	22.77	22.86	20.17	20.22
January	230.3	232.0	78.43	82.03	22.95	23.87	20.21	21.02
February	232.7	234.8	76.13	81.88	21.63	22.09	20.26	21.38
March	235.3	238.1	75.87	79.14	21.42	23.47	20.31	21.82
April	238.1	241.0	75.26	77.53	21.09	22.39	20.53	22.09
May	240.4	242.6	76.12	76.29	21.15	21.95	20.73	22.03
June	242.7	244.1	76.85	76.53	21.27	22.43	20.93	22.25
July	245.0	245.6	77.71	76.96	21.53	22.72	21.15	22.31
August	246.9	246.6	80.15	77.79	23.41	22.88	21.07	22.45
September	248.6	247.5	79.92	77.95	22.28	22.51	20.99	22.38
October	249.7	248.5	80.68	79.14	22.73	22.93	21.18	22.23
November	251.4	249.6	81.21	79.63	23.15	23.15	21.37	22.29
December	253.0	250.6	81.59	80.29	23.39	23.17	21.56	22.42
January	254.6	251.5	81.92	82.14	23.52	23.51	21.74	22.95
Feb. 1981	256.1	252.3	82.73	80.96	23.89	23.29	22.06	23.30

	Business Inventories		Defense Shipments	
	Fore.	C. E.	Fore.	C. E.
Nov. 1979	434.2	424.4	3.14	3.14
December	427.9	426.3	3.23	3.18
January	431.5	431.5	3.24	3.19
February	435.3	434.8	3.25	3.24
March	439.8	440.3	3.26	3.39
April	444.2	443.8	3.32	3.43
May	447.9	446.0	3.38	3.48
June	452.7	448.5	3.44	3.52
July	455.3	450.5	3.47	3.57
August	458.8	452.1	3.51	3.63
September	462.9	454.0	3.55	3.65
October	464.9	456.2	3.60	3.71
November	468.3	459.0	3.65	3.66
December	471.7	461.8	3.70	3.75
January	474.4	464.1	3.75	3.80
Feb. 1981	476.8	466.8	3.79	3.84

Fore. = February Forecast
C. E. = Current Expectations
N. C. = No Change Computed

PRICES

	CPI (unadjusted)		PPI Finished Goods		PPI-Industrial Commodities (unadjusted)		Agricultural Prices (unadjusted)		IVA Corp. (annual rate)	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
Nov. 1979	227.5	227.5	225.9	225.9	250.2	250.6	238	238	44.3	49.3
December	229.9	229.9	227.8	227.8	252.8	252.8	238	238	42.9	51.8
January	232.5	233.2	230.9	232.1	256.9	260.3	237	236	53.1	62.2
February	234.8	236.4	233.0	235.4	260.2	265.4	240	238	54.2	74.5
March	237.1	239.8	235.2	238.2	263.5	268.2	241	234	55.3	68.1
April	239.9	242.0	237.8	239.4	267.1	269.5	249	225	50.6	52.7
May	242.8	244.0	240.6	241.1	270.8	271.9	251	228	45.5	33.6
June	245.7	245.7	243.3	243.0	274.5	273.6	260	232	40.4	26.6
July	247.9	247.4	245.5	244.5	277.2	275.5	267	235	39.6	24.0
August	250.2	249.3	247.6	246.7	279.3	277.7	264	237	38.4	25.1
September	252.5	251.3	249.9	248.9	281.4	279.6	269	238	37.2	29.5
October	254.3	253.5	251.7	251.2	284.4	284.4	264	236	34.1	34.3
November	256.1	256.0	253.4	254.1	287.3	286.6	261	240	33.2	39.9
December	257.9	258.6	255.1	256.5	290.2	289.5	264	244	32.3	41.6
January	259.7	261.2	256.9	259.3	293.1	293.1	267	250	30.9	42.0
Feb. 1981	262.3	263.7	259.6	261.9	294.3	295.1	271	254	40.8	40.4

MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators		Estimated GNP		Estimated GNP (1972 $)		Estimated GNP Deflator	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
Nov. 1979	-1420	-1620	136.6	136.0	2456	2458	1437	1441	1.7091	1.7059
December	-3080	-2923	136.6	135.6	2483	2485	1445	1447	1.7183	1.7169
January	-3055	-3597	136.9	135.2	2502	2516	1445	1454	1.7312	1.7305
February	-3099	-4407	137.3	134.8	2519	2523	1445	1446	1.7437	1.7448
March	-3143	-2080	136.6	131.3	2535	2530	1444	1439	1.7556	1.7581
April	-3329	-2825	135.7	129.2	2551	2515	1440	1420	1.7713	1.7712
May	-3428	-3423	135.2	127.7	2565	2517	1437	1410	1.7846	1.7851
June	-3527	-3914	134.6	127.9	2582	2532	1435	1408	1.7992	1.7983
July	-3411	-3849	134.1	128.2	2597	2559	1433	1413	1.8121	1.8107
August	-3373	-3486	134.5	128.6	2614	2583	1433	1416	1.8237	1.8239
September	-3335	-2932	135.4	128.3	2633	2611	1434	1422	1.8355	1.8366
October	-3026	-3014	136.5	128.0	2654	2642	1431	1422	1.8543	1.8577
November	-2975	-3219	137.1	127.6	2673	2662	1433	1421	1.8659	1.8733
December	-2924	-2765	137.9	127.9	2692	2685	1434	1421	1.8769	1.8900
January	-2865	-2689	138.6	128.3	2712	2704	1435	1420	1.8879	1.9046
Feb. 1981	-2699	-2893	139.3	128.1	2737	2720	1435	1418	1.9081	1.9177

Fore. = February Forecast
C. E. = Current Expectations
N. C. = No Change Computed

FINANCIAL MARKETS

Monetary

	Base		M1-B		M2		Federal Funds		T-Bills (6 Mos.)	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
Nov. 1979	152.7	152.7	N.C.	385.3	N.C.	1514.5	13.18	13.18	11.87	11.82
December	153.7	154.0		387.7		1524.2	13.78	13.78	12.07	11.84
January	155.1	155.0		389.0		1532.8	14.02	13.82	12.20	11.84
February	155.7	156.1		392.9		1546.5	14.39	14.13	12.39	12.86
March	156.3	156.9		392.2		1550.9	14.76	16.66	12.58	15.10
April	157.6	157.4		389.7		1550.7	14.65	18.59	12.55	13.62
May	158.8	158.4		391.6		1560.8	14.61	11.93	12.51	9.92
June	159.7	159.1		393.8		1571.2	14.57	10.21	12.47	9.01
July	160.6	159.7		396.2		1581.7	13.49	10.29	11.53	9.16
August	161.6	160.4		398.4		1593.6	12.64	10.46	10.95	8.97
September	162.5	161.0		400.7		1605.9	11.79	10.33	10.37	9.21
October	163.5	161.8		402.9		1618.8	11.36	10.58	10.16	9.45
November	164.5	162.6		404.2		1630.5	11.05	10.35	10.09	9.32
December	165.4	163.3		405.7		1641.4	10.69	10.76	10.02	9.57
January	166.3	164.3		408.8		1658.8	10.27	10.12	9.73	9.24
Feb 1981	167.7	165.4		410.4		1670.1	9.96	9.95	9.47	9.03

	Aaa (Seasoned)		Municipals		Commercial Paper		90 Day CD'S		Prime Rate	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
Nov. 1979	10.76	10.76	7.30	7.30	13.62	13.57	14.00	13.90	15.55	15.55
December	10.74	10.74	7.22	7.22	13.17	13.24	13.43	13.43	15.30	15.30
January	11.21	11.09	7.51	7.35	13.63	13.04	13.92	13.39	15.45	15.25
February	11.77	12.38	7.89	8.16	14.05	13.78	14.29	14.30	15.93	15.63
March	12.33	12.96	8.32	9.17	14.53	16.76	14.72	17.55	16.12	18.64
April	12.05	12.22	8.07	8.63	14.62	16.26	14.91	16.82	16.38	19.36
May	11.92	10.36	7.96	7.15	14.60	11.28	14.85	11.66	16.35	17.25
June	11.79	10.05	7.90	6.96	14.58	9.62	14.72	10.15	16.21	14.81
July	11.63	10.17	7.73	7.02	13.74	10.09	13.99	10.53	15.45	12.96
August	11.47	10.29	7.59	7.08	12.91	10.45	13.11	10.87	14.72	12.75
September	11.31	10.37	7.47	7.10	12.03	10.55	12.36	11.06	14.02	12.75
October	11.15	10.42	7.36	7.12	11.55	10.78	11.84	11.21	13.25	12.75
November	11.05	10.36	7.29	7.05	11.26	10.42	11.49	10.95	13.03	12.75
December	10.95	10.53	7.17	7.12	10.82	10.72	11.09	11.23	12.42	12.75
January	10.82	10.30	7.06	6.93	10.52	9.92	10.75	10.31	12.00	12.36
Feb. 1981	10.68	10.12	6.98	6.79	10.16	9.73	10.48	10.09	12.00	12.00

Fore. = February Forecast
C. E. = Current Expectations
N. C. = No Change Computed

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GSU
Economic
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MONTHLY PROJECTIONS
FOR EARLY JUNE

ANOTHER DOUBLE-DIGIT DECLINE DEVELOPING IN MAY

None of the important monthly economic data yet are available for May. Nevertheless, fragmentary information suggests that the free fall in economic activity continued through most of the month. Certainly, the Business Week index showed no interruption in its rate of descent. Steel production fell sharply throughout the month. Housing activity almost certainly continued to decline, although at a reduced rate from the record decline in March and the lesser decline in April. Initial unemployment claims reached record levels during the May survey week. Also, domestic auto sales remained near 5.3 million units at annual rates despite the re-introduction of rebates. While the decline in prices of new automobiles should increase sales in June, this early response to the rebate program is disheartening.

According to the manufacturing inventories accumulated in April, where gains were at a 1.7% rate despite significant slowing in commodity inflation, final sales appear to have declined even more dramatically than economic activity. Some involuntary inventory accumulations have developed. Economic activity almost certainly has passed the mild range for an entire recession and is moving up to the moderate level. Some analysts believe that the recovery will be as rapid as the decline. This is unlikely. The major reason for ruling out a V-shaped cycle is that the collapse in final sales is a readjustment toward higher savings rates. It is unlikely that this readjustment will unwind as soon as credit conditions are altered.

GNP Revisions Reduce Economic Imbalances Prior to Recession

The revised GNP estimates for the first quarter reduced real economic activity from 1.1% to 0.6% and reduced the implicit deflator from 9.5% to 9.3%. Changes in prices were not substantial, but changes in the composition of economic activity during the first quarter tended to reduce the degree of economic imbalance that existed prior to the onset of recession.

Real activity was revised downward for consumption expenditures, residential expenditures, business inventories, and federal defense purchases. Exports were revised upward to show a strong 19.6% annual rate of increase, which obviously cannot be sustained. Imports were revised downward. This strengthened the trade sector, which improved further in April. However, trade should not provide a positive economic impact beyond the first half of this year.

The downward revisions in consumption included declines in furniture purchases, declines in energy consumption, and substantial declines in transportation services. All these areas required some adjustment. In addition, an actual decline in business inventories occurred despite some modest growth in goods activity. Thus, inventory problems were diminished during the first quarter.

The unusually low savings level was revised upward by about $5 billion. While substantially greater adjustments in savings are needed, and are forthcoming as witnessed by the 4.2% savings rate in April, this upward revision reduces the total consumption adjustment that now must be made.

Of course, a downward revision in economic activity led to lower corporate tax accruals at the state and local level than had been expected. Thus, operating budgets currently are running $4.6 billion in deficit. This is greater than anticipated and should lead to weaker subsequent expenditures by state and local governments than contained in the forecast.

On balance, the unsustainably high export growth and the unsustainable deficits in state and local operating budgets, both of which imply developing weakness later in the year, are more than offset by reduced economic imbalance in the consumer sector and in inventory accumulations than originally had been recorded.

The net impact of the revised GNP statistics is to reduce the dimensions of the developing recession, but the changes are modest.

Monthly Highlights
May 1980

Payroll employment, -375,000; hours worked, -1.2%; unemployment, 7.6%; personal income, unc.; personal outlays, +0.1%; retail sales, -0.6%; auto sales, 7.8 million; industrial production, -1.8%; housing starts, -4.5%; housing permits, +1.8%; construction expenditures, -2.5%; durable goods orders, -4.5%; orders for nondefense capital goods, -4.2%; business inventories, +0.9%; CPI, +0.7%; PPI, +0.7%; merchandise trade deficit, -$1.9 billion; leading indicators, -0.8%.

Monthly Highlights
June 1980

Payroll employment, -230.000; hours worked, -0.4%; unemployment, 7.8%; personal income, +0.3%; personal outlays, +0.5%; retail sales, +0.6%; auto sales, 8.2 million; industrial production, -0.7%; housing starts, unc.; housing permits, +3.5%; construction expenditures, -1.6%; durable goods orders, +2.5%; orders for nondefense capital goods, -3.2%; business inventories, +0.8%; CPI, +0.6%; PPI, +0.6%; agricultural prices, +1.0%; merchandise trade deficit, -$2.5 billion; leading indicators, +0.3%; M1-B, +6.5%; M2,+7.6%.

COMMENTARY

Personal Income and Outlays

Personal income was slightly above anticipations in April, primarily because wage and salary increases were revised upward in February and March. These upward revisions were caused by upward estimates of hours worked. Unfortunately, the revision reflected greater declines in productivity than previously had been recorded. For that reason, employment may unravel much more rapidly now that the recession is here and now that inventory profits are eroding sharply. Therefore, the higher than expected personal income in April will not lead to higher than anticipated personal income growth in subsequent months.

While personal income was being revised upward, personal outlays declined sharply, especially in February and March. As a result, the personal savings rate rose more than $10 billion above previous anticipations for the month of April. Some of these downward revisions reflected lower than estimated expenditures for services, while other downward revisions were concentrated in the furniture and appliance areas. The reduction in service expenditures suggests that the downward revision in consumer outlays is partially a response to a downward estimate of normal income. Thus, it is possible that the entire consumer correction is developing during the early stages of this recession. If so, the savings rate will be substantially higher than previously expected during the spring and early summer months. At the same time, economic activity will be noticeably weaker than contained in the last forecast.

In addition to the downward revision in service expenditures, activity was significantly revised downward for furniture and appliances as reflected in non-auto durables and for the value of auto sales. Both these sectors unquestionably are overstated in the forecast for the second quarter.

Construction

Housing starts and housing permits showed decidedly different patterns for the month of April. Starts performed better than had been expected, primarily because single-family units showed a slight increase in overall starts. On the other hand, permits were down even more sharply than had been anticipated. Possibly, the April single-family starts reflected financing that already had been committed. As previous commitments become exhausted, a decline in starts may develop in the next few months. For this reason, the better than anticipated performance of single-family starts in April does not suggest that construction will perform better than contained in the forecast.

Business Activity

Durable goods orders slumped much more sharply than anticipated, but the important nondefense capital goods orders performed better than had been expected. However, the good performance in nondefense orders in April was caused by increases in aircraft orders. These are relatively bunched order flows that do not suggest that capital goods orders are strong. More significantly, shipments of nondefense capital goods slipped noticeably during April. Expenditures for producers' durables in the second quarter may fall below forecasted values. Similarly, shipments of defense goods began to slow. Thus, a second consecutive large quarterly increase in defense expenditures no longer in anticipated.

Prices

Some confusion has arisen over the role that mortgage financing plays in the Consumer Price Index. Mortgage financing constitutes 10% of the CPI and is measured primarily by the FHA and VA rates and the conventional mortgage rates prepared by the Federal Home Loan Bank. The FHA/VA rates are those prevailing early in the month of the price survey. For May, the government mortgages will register a decline. However, the conventional mortgage rate is for the first five business days of the preceding month. Thus, the mortgage that prevailed early in April will be included in the May CPI. This rate still was trending upward. A combination of the two rates should lead to a very little change in overall mortgage charges during May. In June, however, both mortgage rates should register significant declines. At that time, it is possible that the CPI could slow to as low as 0.4%.

Miscellaneous

April's merchandise trade balance was substantially better than had been anticipated, primarily because of a sharp drop in oil imports. This strong performance offset the especially weak performance on consumer outlays, leading to the likelihood that GNP in April approached forecasted values. As GNP was revised sharply downward for March, this means that the drop in activity between March and April was considerably less substantial than originally reported. On the other hand, the level of economic activity will approach forecasted values. As inflation rates are trending slightly above anticipations, the GNP deflator for April and subsequent months probably will be higher than originally anticipated. For this reason, GNP in 1972 dollars will be lower in April and subsequent months than contained in the forecast. The possibility of a double-digit decline in real GNP during the second quarter is very real.

Financial Markets

Interest rates fell dramatically in late April and in May despite a modest contraction in all basic measures of the money stock. Of more interest than the magnitude of the decline, which was basically anticipated by the forecast, was the composition of changes. Commercial paper rates fell dramatically relative to federal funds rates. This suggests that weak demand and not changes in supply was responsible for plummenting rates. Banks were quick to reduce the interest rates they were willing to offer for 90-day CD's to conform with the increased availability of funds, but they were extremely reluctant to lower the prime rate. If normal relationships persisted, the prime rate already would be below 12%.

Despite the dramatic decline in short-term rates, long-term interest rates drifted downward somewhat more sedately than had been expected. While a two percentage point change in seasoned Aaa's during a two-month period is a dramatic rally, the changes are relatively modest when compared to the dramatic changes in short-term rates. This probably reflects investor concern that underlying inflationary pressures have not receded at the present time.

Stock Market

The stock market apparently continues to be encouraged by the decline in interest rates and is continuing to ignore the erosion in economic activity. Some of this performance is justified, as the inventory valuation adjustment is falling sharply at the present time. Genuine profits are nearly unchanged during the second quarter. However, the decline in economic activity is so substantial that more than normal downside risk probably exists for equity values. For that reason, there is some likelihood that stock prices will decline during the summer.

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Employment		Unemployment Rate		Hourly Earnings Index	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
Dec. 1979	90241	90241	126.6	126.6	97912	97912	5.9	5.9	239.5	239.5
January	90652	90652	127.1	127.1	97804	97804	6.2	6.2	240.5	240.5
February	90845	90845	126.8	126.8	97953	97953	6.0	6.0	242.6	242.6
March	90799	90799	126.1	126.1	97656	97656	6.2	6.2	245.1	245.1
April	90320	90320	124.5	124.5	97154	97154	7.0	7.0	245.6	245.6
May	90047	N.C.	124.4	N.C.	96893	N.C.	7.5	N.C.	247.8	N.C.
June	89774		124.3		96632		7.5		249.8	
July	89808		124.2		96743		7.6		251.1	
August	89830		124.1		96854		7.7		252.4	
September	89840		124.1		96925		7.8		254.1	
October	89855		124.1		96983		7.9		255.8	
November	89866		124.1		97018		8.1		257.2	
December	89935		124.3		97121		8.3		258.9	
January	90009		124.4		97234		8.3		260.5	
February	90103		124.6		97332		8.3		262.4	
Mar. 1981	90196		124.8		97425		8.2		263.9	

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
Dec. 1979	2.028	2.028	1.283	1.283	57.0	57.0	1.701	1.701	1.644	1.644
January	2.047	2.047	1.293	1.293	59.0	59.0	1.728	1.728	1.669	1.669
February	2.054	2.056	1.301	1.304	58.0	64.1	1.735	1.735	1.677	1.670
March	2.069	2.070	1.310	1.313	59.8	69.4	1.747	1.746	1.687	1.677
April	2.067	2.070	1.303	1.306	62.4	73.3	1.746	1.747	1.683	1.674
May	2.075	N.C.	1.307	N.C.	58.6	N.C.	1.750	N.C.	1.692	N.C.
June	2.082		1.312		53.8		1.754		1.701	
July	2.115		1.320		77.1		1.788		1.711	
August	2.133		1.327		78.7		1.798		1.719	
September	2.150		1.335		80.3		1.807		1.727	
October	2.169		1.350		80.6		1.822		1.742	
November	2.185		1.358		79.7		1.837		1.757	
December	2.202		1.365		81.3		1.850		1.769	
January	2.212		1.377		84.6		1.867		1.782	
February	2.229		1.387		87.2		1.881		1.794	
Mar. 1981	2.247		1.398		89.4		1.895		1.806	

Fore. = February Forecast
C. E. = Current Expectations
N. C. = No Change Computed

RETAIL SALES

	Retail Sales		Non Auto Durables		Auto (Million Units)		Nondurable Sales		Auto Sales	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
Dec. 1979	77.15	77.15	11.33	11.33	10.5	10.5	51.21	51.21	14.62	14.62
January	79.46	79.46	11.58	11.58	11.6	11.6	52.20	52.20	15.69	15.69
February	78.21	77.99	11.44	11.32	10.5	10.5	51.63	51.62	15.15	15.05
March	77.22	76.23	11.51	10.73	10.1	10.1	51.67	52.01	14.05	13.49
April	76.25	75.33	11.48	10.77	8.3	8.3	51.83	52.39	12.94	12.17
May	75.84	N.C.	11.49	N.C.	7.8	N.C.	52.50	N.C.	11.85	N.C.
June	76.68		11.48		8.2		53.13		12.07	
July	76.37		11.37		7.8		53.15		11.85	
August	76.54		11.36		7.7		53.22		11.96	
September	76.77		11.35		7.9		53.33		12.09	
October	77.51		11.35		8.0		53.89		12.28	
November	78.22		11.42		8.0		54.49		12.31	
December	79.03		11.42		8.1		55.16		12.45	
January	79.27		11.46		7.8		55.35		12.46	
February	79.56		11.48		7.8		55.56		12.52	
Mar. 1981	79.95		11.49		7.9		55.78		12.68	

INDUSTRIAL PRODUCTION

	Industrial Production		Capacity Utilization	
	Fore.	C. E.	Fore.	C. E.
Dec. 1979	152.2	152.2	84.0	84.0
January	152.7	152.6	84.1	84.1
February	152.4	152.3	83.9	83.8
March	151.2	151.3	83.0	83.0
April	149.1	148.5	81.6	81.0
May	147.9	N.C.	80.6	N.C.
June	146.7		79.6	
July	146.4		79.1	
August	146.2		78.7	
September	146.2		78.5	
October	146.5		78.4	
November	146.8		78.3	
December	147.1		78.2	
January	147.7		78.2	
February	148.3		78.3	
Mar. 1981	149.0		78.4	

Fore. = February Forecast
C. E. = Current Expectations
N. C. = No Change Computed

HOUSING

	Housing Starts		Single Family Starts		Housing Permits		Expenditures (Current)		Expenditures (Real)	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
Dec. 1979	1.517	1.517	1.036	1.036	1.244	1.244	242.0	242.0	116.6	116.6
January	1.419	1.419	1.002	1.002	1.264	1.264	250.0	250.0	120.4	120.4
February	1.332	1.330	0.789	0.786	1.142	1.142	243.1	243.1	115.9	115.9
March	1.041	1.041	0.606	0.615	0.941	0.932	229.0	229.0	109.5	109.5
April	0.959	1.019	0.543	0.625	0.812	0.800	222.8	N.C.	105.6	N.C.
May	0.930	N.C.	0.495	N.C.	0.783	N.C.	217.5		102.3	
June	0.913		0.468		0.769		215.9		100.7	
July	0.978		0.539		0.812		214.2		99.2	
August	1.099		0.620		0.915		215.5		99.1	
September	1.127		0.649		0.973		217.8		99.4	
October	1.186		0.702		1.013		222.3		100.6	
November	1.215		0.734		1.005		227.9		102.3	
December	1.306		0.789		1.127		232.6		103.6	
January	1.397		0.883		1.221		237.4		104.8	
February	1.495		0.971		1.336		243.1		106.4	
Mar. 1981	1.582		1.018		1.443		246.9		107.1	

HOUSING CONTINUED

	Private Non Residential		Public Construction		Residenatial Construction	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
Dec. 1979	87.9	87.9	52.1	52.1	102.0	102.0
January	90.9	90.9	59.4	59.4	99.7	99.7
February	89.0	89.0	56.4	56.4	97.7	97.7
March	86.8	86.8	52.6	52.6	89.7	89.7
April	86.5	N.C.	53.8	N.C.	82.5	N.C.
May	86.5		54.7		76.3	
June	87.2		54.7		74.0	
July	87.7		54.6		71.9	
August	88.2		54.9		72.4	
September	88.6		55.3		73.9	
October	89.0		55.7		77.6	
November	89.5		56.0		82.4	
December	89.7		56.5		86.4	
January	90.1		57.1		90.2	
February	90.8		57.7		94.6	
Mar. 1981	91.2		58.0		97.7	

Fore. = February Forecast
C. E. = Current Expectations
N. C. = No Change Computed

BUSINESS ACTIVITY

	Manufacturers Inventories		Durable Goods Orders		Non-defense Capital Goods Orders		Non-defense Capital Shipments	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
Dec. 1979	228.1	228.1	77.75	77.75	22.86	22.86	20.22	20.22
January	232.0	232.0	82.03	81.26	23.87	23.70	21.02	21.03
February	234.8	234.8	81.88	81.05	22.09	21.51	21.38	21.32
March	238.1	238.1	79.14	77.91	23.47	22.95	21.82	21.48
April	240.3	N.C.	77.53	74.66	22.39	23.18	22.09	20.94
May	241.5		75.26	N.C.	21.95	N.C.	21.22	N.C.
June	242.3		73.01		20.65		20.67	
July	244.7		74.47		21.42		21.03	
August	246.5		75.51		21.89		21.48	
September	248.2		77.06		22.55		21.85	
October	250.3		76.82		22.46		21.72	
November	252.4		77.43		22.76		21.85	
December	254.0		79.02		23.01		21.95	
January	255.6		79.92		23.43		22.02	
February	256.9		79.15		23.21		22.13	
Mar. 1981	258.1		80.05		23.62		22.25	

	Business Inverntories		Defense Shipments	
	Fore.	C. E.	Fore.	C. E.
Dec. 1979	426.3	426.3	3.18	3.18
January	431.5	431.5	3.19	3.08
February	434.8	435.1	3.24	3.25
March	440.3	437.6	3.39	3.39
April	442.3	N.C.	3.43	3.33
May	444.7		3.38	N.C.
June	446.4		3.35	
July	450.1		3.40	
August	452.9		3.45	
September	456.0		3.49	
October	458.7		3.54	
November	461.3		3.60	
December	464.7		3.66	
January	467.1		3.70	
February	469.7		3.73	
Mar. 1981	472.2		3.77	

Fore. = February Forecast
C. E. = Current Expectations
N. C. = No Change Comp

PRICES

	CPI (unadjusted) Fore.	CPI (unadjusted) C. E.	PPI Finished Goods Fore.	PPI Finished Goods C. E.	PPI-Industrial Commodities (unadjusted) Fore.	PPI-Industrial Commodities (unadjusted) C. E.	Agricultural Prices (unadjusted) Fore.	Agricultural Prices (unadjusted) C. E.	IVA Corp. (annual rate) Fore.	IVA Corp. (annual rate) C. E.
Dec. 1979	229.9	229.9	227.8	228.1	252.8	253.1	238	238	51.8	51.8
January	233.2	233.2	232.1	232.1	260.3	260.3	236	236	62.2	64.1
February	236.4	236.4	235.4	235.4	265.4	265.4	238	238	74.5	72.3
March	239.8	239.8	238.2	238.2	268.2	268.2	234	234	68.1	66.7
April	242.0	242.5	239.4	240.0	269.5	270.7	225	223	49.2	54.3
May	243.7	N.C	241.1	242.2	271.9	272.6	228	225	30.1	N.C.
June	245.3		243.3	N.C.	274.3	N.C.	232	N.C.	23.1	
July	247.5		245.7		277.1		236		29.2	
August	249.6		247.9		279.6		240		33.4	
September	251.4		249.8		282.2		239		44.8	
October	253.5		252.0		285.3		237		45.3	
November	255.6		254.0		288.4		241		44.1	
December	257.7		256.2		291.1		245		42.3	
January	259.8		258.3		293.2		250		37.2	
February	261.9		260.5		294.6		253		35.2	
Mar. 1981	264.0		262.7		296.1		252		37.4	

MISCELLANEOUS

	Merchandise Trade Balance Fore.	Merchandise Trade Balance C. E.	Leading Indicators Fore.	Leading Indicators C. E.	Estimated GNP Fore.	Estimated GNP C. E.	Estimated GNP (1972 $) Fore.	Estimated GNP (1972 $) C. E.	Estimated GNP Deflator Fore.	Estimated GNP Deflator C. E.
Dec. 1979	-2923	-2923	135.6	135.6	2485	2485	1447	1447	1.7169	1.7169
January	-3597	-3597	135.2	135.2	2514	2513	1452	1452	1.7309	1.7310
February	-4407	-4407	134.8	134.8	2520	2519	1444	1444	1.7451	1.7440
March	-2080	-2080	131.3	132.3	2527	2516	1436	1431	1.7593	1.7576
April	-2675	- 850	129.2	126.3	2514	N.C.	1420	N.C.	1.7699	N.C.
May	-2908	N.C.	127.7	N.C.	2520		1416		1.7800	
June	-3242		126.5		2526		1410		1.7917	
July	-2965		126.8		2543		1409		1.8048	
August	-2802		127.1		2560		1409		1.8175	
September	-2775		126.6		2578		1408		1.8311	
October	-2695		127.3		2593		1402		1.8494	
November	-2638		127.5		2608		1405		1.8557	
December	-2543		126.6		2632		1407		1.8701	
January	-2453		127.1		2655		1409		1.8839	
February	-2379		127.8		2687		1414		1.9009	
Mar. 1981	-2295		128.9		2715		1418		1.9146	

FINANCIAL MARKETS

Monetary

	Base		M1-B		M2		Federal Funds		T-Bills (6 Mos.)	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
Dec. 1979	154.0	154.0	387.7	387.7	1524.2	1524.2	13.78	13.78	11.84	11.84
January	154.9	154.9	389.1	389.0	1532.8	1532.8	13.82	13.82	11.84	11.84
February	156.1	156.1	392.9	392.9	1546.6	1546.2	14.13	14.13	12.86	12.86
March	157.0	157.0	392.3	392.3	1550.9	1550.2	17.19	17.19	15.03	15.03
April	157.4	157.4	389.7	387.5	1550.7	1546.8	18.59	18.59	13.62	13.62
May	158.0	158.0	389.5	388.4	1551.2	1548.3	10.41	11.82	9.38	9.15
June	158.6	N.C.	391.1	N.C.	1554.1	N.C.	8.68	N.C.	8.35	N.C.
July	159.4		394.3		1568.9		9.11		8.89	
August	160.3		396.8		1587.7		9.65		9.16	
September	161.1		398.9		1599.4		9.85		9.41	
October	161.9		401.4		1613.6		9.43		9.12	
November	162.7		404.7		1627.1		9.08		9.03	
December	163.6		406.8		1641.1		8.76		8.92	
January	164.4		408.5		1656.8		8.15		8.67	
February	165.3		410.2		1669.3		8.42		8.46	
Mar. 1981	166.2		411.9		1681.2		8.82		8.50	

	Aaa (Seasoned)		Municipals		Commercial Paper		90 Day CD'S		Prime Rate	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
Dec. 1979	10.74	10.74	7.22	7.22	13.24	13.24	13.43	13.43	15.30	15.30
January	11.09	11.09	7.35	7.35	13.04	13.04	13.39	13.39	15.25	15.25
February	12.38	12.38	8.16	8.16	13.78	13.78	14.30	14.30	15.63	15.63
March	12.96	12.96	9.17	9.17	16.81	16.81	17.57	17.57	18.31	18.31
April	12.22	12.04	8.63	8.63	17.43	16.20	18.09	16.78	19.27	19.65
May	10.27	11.04	7.19	7.59	9.76	9.73	9.97	10.13	15.73	17.20
June	9.34	N.C.	6.54	N.C.	8.46	N.C.	8.69	N.C.	12.49	N.C.
July	9.78		6.75		9.23		9.55		11.89	
August	10.15		6.81		9.79		10.11		11.75	
September	10.29		7.10		10.02		10.35		11.75	
October	10.15		7.00		9.37		9.52		11.55	
November	10.01		6.86		8.86		9.14		11.36	
December	9.97		6.78		8.55		8.73		10.92	
Janaury	9.82		6.68		7.96		8.16		10.63	
February	9.59		6.47		8.55		8.96		10.50	
Mar. 1981	9.55		6.49		9.03		9.37		10.50	

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GSU Economic Forecasting Project Newsletter
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MONTHLY PROJECTIONS
FOR JUNE

JOB LOSSES IN PRIVATE NON-AGRICULTURAL ECONOMY APPROACH 1.3 MILLION

In May, household employment was 965,000 below February's peak. However, more than 200,000 additional employees conducting the census and a surprising 140,000 increase in agricultural employment prevented the decline from going above a million. If these special circumstances are eliminated, employment loss in the private non-agricultural sector already exceeds 1.3 million. This compares with a job loss of 1.9 million during the 1973-75 recession and about 2 million during the 1957-58 recession. Both in 1960 and 1970, job loss did not exceed a million. Thus, the recession already has reached the moderate range and is rapidly moving toward a moderately severe rating.

Since January, retail sales have fallen by the following monthly rates: 1.8%, 1.9%, 2.3% and 1.5%. This is the sharpest four month decline ever recorded in this series. Of course, inflation adjusted declines in retail sales were even worse. The savings rate now has retraced two-thirds of its decline between July and December of 1979. The index of hours worked is 9.3% at annual rates below first quarter levels. Thus, wage and salary earnings are declining even with an acceleration in the growth of the hourly earnings index. The collapse in construction expenditures has slowed to a 2.6% decline after adjustment for inflation in April. An improvement in hours worked in the construction industry during May suggests that the construction slump is approaching a bottom. On the other hand, prospects in the capital goods industries are deteriorating. Durable goods orders slumped 6.6% despite increases in aircraft orders. Shipments also fell sharply. Furthermore, the quarterly survey of capital expenditure anticipations revealed a decline in spending intentions from an 11.1% increase to a 9% increase. Furthermore, accelerating inflation in the capital equipment industry suggests that inflationary component may exceed anticipations in this sector.

Changes in GNP

	% Change 1980-1	% Change 1980-2	% Change 1980-3	% Change 1980-4	% Change 1981-1
Change in Real Output	+0.7	-9.3%	-2.9%	-0.8%	+1.0%
Price Deflator	9.3	10.0	9.8	10.2	9.2
Nominal GNP	+10.1	-0.2	+6.5	+9.5	+10.2

Monthly Highlights
May 1980

Personal income, +0.1%; personal outlays, -0.1%; industrial production, -1.5%; housing starts, -5.3%; housing permits, UNC.; construction expenditures, -0.7%; durables goods orders, -2.5%; nondefense capital goods orders, -3.3%; business inventories, +0.6%; CPI, +0.7%; merchandise trade balance, -$1.67 billion; leading indicators, -1.1%.

Monthly Highlights
June 1980

Payroll employment, -305,000; hours worked, -0.5%; unemployment rate, 7.9%; personal income, +0.2%, personal outlays, +0.5%, auto sales, 7.7 million; retail sales, UNC.; industrial production, -0.6%; housing starts, +3.4%; housing permits, +2.7%; construction expenditures, +0.6%; durable goods orders, -1.1%; nondefense capital goods orders, -2.4%; business inventories, +0.4%; CPI, +0.6%; PPI, +0.7%; agricultural prices, +0.9%; merchandise trade balance, -$2.5 billion; leading indicators, +0.2%; M1-B, +9.0%; M2, +8.6%.

COMMENTARY

Employment

Payroll employment fell only 180,000 in May, while April's estimates were revised upward 188,000. Most of this upward revision was caused by an initial undercounting of the number of temporary employees on the federal payrolls for the purpose of conducting the census. In May, 80,000 of these temporary jobs already had been eliminated. Thus, payroll employment in May was stronger than anticipated excluding census employment. It is unlikely, however, that the economy is stronger than originally expected. The index of hours worked actually declines more rapidly than had been anticipated. This suggests that further layoffs probably will be forthcoming in the next few months.

The reference week for the June labor force is early. Thus, a smaller than normal increase of teenagers into the labor force probably developed. This would lead to a sharp decline in teenage employment, but an even greater decline in the teenage labor force. Thus, the possibility of a slight decline in the unemployment rate exists for June.

The most discouraging part of the employment report was the fact that the hourly earnings index is 9% above previous year levels. Some of this acceleration may be caused by the layoff of lower wage recipients. However, wage acceleration also has occurred in service-related industries, where layoffs are not extensive. Thus, inflation could be more severe in 1981 than originally expected.

Personal Income and Outlays

Personal income in April was slightly above forecasted values, and the upward revision in payroll employment suggests that some upward revisions may develop for personal income. However, little growth in personal income is anticipated in the next few months.

Because of the collapse in consumer activity, it now appears that the personal savings rate will rise by more than two percentage points between December 1979 and January 1981. It is unlikely that credit controls were responsible for the abrupt change in savings behavior. Rather, this is a fundamental adjustment to eliminate the erosion of discretionary savings in households. Only if this savings correction is greater than two percentage points can one anticipate a rapid improvement in consumer activity following the end of this recession.

Retail Sales

Purchases of durables other than autos have slumped dramatically since January. Purchases of jewelry, household appliances, and furniture continue to decline in nominal terms. (The abrupt upward movement of prices for precious metals in recent weeks may turn the nominal values upward in June and July but should have little impact upon real values). May's slowing sales for nondurable goods was surprising given the favorable department store reports for the large retail chains. Of course, reduced inflationary pressures for food and gasoline have slowed the inflation rate in the nondurables category. Finally, the failure of auto sales to show any noticeable response to an aggresive rebate program suggest an early recovery in auto sales is not likely. However, large purchases of automobiles for fleets in October and November should provide a temporary gain in reported sales at that time. This, of course, does not affect consumer activity.

Housing

The collapse in multiple family starts to less that 400,000 in April reveals the rapid exodus of insurance support from the housing market. As insurance policy loans remain high, multiple family starts are expected to remain well below 500,000 for the remainder of this year. Although starts for single family units increased in April, and construction employment appeared to be favorable in May, the extremely low rates of sales (at a 366,000 unit level) suggest that starts should once again fall in May. On the other hand, the weakness in construction has virtually eliminated inflationary pressures in that sector. Indeed, the implicit price deflator fell by nearly a full percentage point in April.

Clearly, such reductions in construction inflation cannot be expected to continue.

Business Activity

Because of the erosion of sales, an inventory problem in the materials industries has developed. In April, manufacturing inventories increased 1.7% while manufacturing shipments declined. Of course, an upward trend in sales could eliminate the inventory problem. It is clear, however, that the materials industries are moving rapidly to eliminate excess inventories. This explains part of the reason for the sharp drop in orders for durable goods during the past few months.

Shipments of nondefense capital goods registered a surprising drop in April. As a result, producers' durables expenditures may show no gain in the second quarter from first quarter levels. Furthermore, defense shipments no longer are bounding upward. Thus, expenditures for defense goods will not be increasing by the same magnitude in the second quarter that it increased in the first quarter.

Prices

In April, prices rose more sharply than we expected. The PPI elements for May rose sufficiently less than expected to wash out the overestimates in April. This is what should occur in a sample that only approximates price performance. Nevertheless, because we estimate that mortgage activity would be registered as a declining influence on the CPI sooner than will be the case, consumer prices in the second quarter now are expected to rise more rapidly than contained in the forecast.

We also discovered that our adjustment procedure for the IVA was slightly off time. As a result, second quarter decreases in the inventory valuations adjustment are not expected to be significant.

Agricultural prices are below anticipations because of a dramatic increase in the slaughter of hogs. While this heavy slaughter has increased the supply of meat in the past few weeks, a significant number of producers probably are leaving the business. As a result, we anticipate that agricultural prices will move more sharply higher in the fall than previously had been expected.

Miscellaneous

Despite a rise in stock market prices, the leading indicators probably will decline again in May. Already, the workweek and the four-month weighted trend of sensitive prices are pointing downward. The money and liquidity measures also appear to be declining. Layoff rates almost certainly did not rise significantly from their April levels, but vendor performance appears to be even more negative than in earlier months. Thus, at least five of the components of the leading indicators are declining while only one, stock prices, definitely is rising.

Because of the continued dramatic erosion of consumer activity, it now appears that nominal GNP declined in the second quarter. The most dramatic decline was in April, when real GNP declined at more than a 13% annual rate. However, declines appear to remain in the double-digit range in May. According to our estimates, activity already has decline 3.2% between January and May. Those economists still looking for a less than average peak to trough decline in real GNP have not been aware of the enormity of the recent collapse.

Financial Markets

Interest rates on treasury bills continued to decline dramatically into June, but other short term interest rates showed resistance to further decline. Rates on commercial paper and certificates of deposit appeared to pause near the 8% level. The Federal Reserve appears to desire a trading range for the federal funds rate that is no lower than 9% nor higher than 10.5%. Of course, since this range is somewhat higher than prevailing market interest rates, the effect has been to completely nullify the stimulative impact upon money growth from changes in reserve requirements. While money growth showed some positive movement folliwing a sharp decline in April, monetary aggregates remain below February or March peaks. Only the monetary base continues to move forward at a rapid pace. However, speculation in currency markets and the obvious reduction in the use of credit cards has led to a significant increase in the use of currency. Most of the monetary base at the present time is being exhausted by currency holders.

The reason for Federal Reserve resistance to lower interest rates at this time is unclear. The dollar has weakened considerably since interest rates began to fall, but the domestic economy also has been very weak. Federal reserve action to stimulate money growth normally would be anticipated under these circumstances. Furthermore, all previous OPEC price increases have led to a strengthening of the dollar. Although the current OPEC pricing decision is very modest and ambiguous, the dollar should show moderate signs of strengthening in the next few weeks. Under these circumstances, one would anticipate that further Federal Reserve encouragement of declining interest rates would develop.

On the other hand, fiscal policy will move into a temporary stimulative mode in July because of significant social security disbursements. This stimulus is expected to provide a temporary brake upon the decline in consumer activity. At the same time some increase in commodity speculation during the period of dollar weakness has led to a higher anticipations of inflationary pressures than previously appeared likely. Thus, some upward movement in both short and long term interest rates may develop during the summer. Then renewed consumer weakness along with the developing weakness in capital goods activity during the fall should lead to a second downward movement of interest rates.

Stock Market

At best the current stock market rally is premature. It is still possible that investors are ignoring the obvious erosion of earnings resulting from the substantial decline in economic activity during the spring and are continuing to become encouraged by falling interest rates. A second factor is the shift in perceptions of risk between investments in bonds and stocks. Tremendous volatility in the bond market early this year has reduced the predictability of earnings in that market. Thus, the stock market may be reflecting a dramatic shift in the risk-reward perceptions of various investment instruments. If this is the case, the current valuations of equities may be justified. On the other hand, the normal cyclical rally of the stock market will occur in the future.

What is especially troubling about the performance of equity values at this time is that the stock market is the only leading indicator showing an upward trend. In previous stock market moves, if equity values moved in a direction oppositve from the other components of the leading indicators, a sharp reversal of equity prices soon developed. Thus, some risk must be presumed to exist in equity investment at this time.

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Employment		Unemployment Rate		Hourly Earnings Index	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
Jan, 1980	90652	90652	127.1	127.1	97804	97804	6.2	6.2	240.5	240.5
February	90845	90845	126.8	126.7	97953	97953	6.0	6.0	242.6	242.6
March	90799	90819	126.1	126.0	97656	97656	6.2	6.2	245.1	245.3
April	90320	90508	124.5	124.5	97154	97154	7.0	7.0	245.6	246.4
May	90047	90328	124.4	123.6	96893	96988	7.5	7.8	247.8	247.9
June	89774	90023	124.3	123.0	96632	96726	7.5	7.9	249.8	250.0
July	89808	89847	124.2	122.5	96743	96635	7.6	8.1	251.1	251.3
August	89830	89762	124.1	122.1	96854	96597	7.7	8.3	252.4	252.8
September	89840	89732	124.1	122.1	96925	96743	7.8	8.4	254.1	254.5
October	89855	89749	124.1	122.2	96983	96794	7.9	8.5	255.8	256.0
November	89866	89801	124.1	122.2	97018	96856	8.1	8.7	257.2	257.7
December	89935	89765	124.3	122.1	97121	96891	8.3	8.8	258.9	259.8
January	90009	89943	124.4	122.5	97234	97016	8.3	8.8	260.5	261.3
February	90103	90087	124.6	122.6	97332	97163	8.3	8.9	262.4	263.2
March	90196	90107	124.8	122.8	97425	97202	8.2	9.0	263.9	265.5
Apr. 1981	90285	90241	125.0	123.2	97553	97296	8.3	9.1	265.5	266.9

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
Jan. 1980	2.047	2.047	1.293	1.293	59.0	59.0	1.728	1.728	1.669	1.669
February	2.054	2.056	1.301	1.304	58.0	64.1	1.735	1.735	1.677	1.670
March	2.069	2.070	1.310	1.313	59.8	66.6	1.747	1.746	1.687	1.680
April	2.067	2.070	1.303	1.306	62.4	77.1	1.746	1.747	1.683	1.670
May	2.075	2.073	1.307	1.303	58.6	81.4	1.750	1.751	1.692	1.669
June	2.082	2.078	1.312	1.303	53.8	75.9	1.754	1.754	1.701	1.677
July	2.115	2.105	1.320	1.307	77.1	85.2	1.788	1.779	1.711	1.694
August	2.133	2.120	1.327	1.312	78.7	86.7	1.789	1.791	1.719	1.704
September	2.150	2.137	1.335	1.320	80.3	89.3	1.807	1.804	1.727	1.714
October	2.169	2.159	1.350	1.334	80.6	91.1	1.822	1.822	1.742	1.731
November	2.185	2.176	1.358	1.344	79.7	92.6	1.837	1.836	1.757	1.743
December	2.202	2.188	1.365	1.350	81.3	87.0	1.850	1.846	1.769	1.759
January	2.212	2.202	1.377	1.364	84.6	104.2	1.867	1.870	1.782	1.766
February	2.229	2.216	1.387	1.373	87.2	104.5	1.881	1.881	1.794	1.777
March	2.247	2.238	1.398	1.388	89.4	106.8	1.895	1.898	1.806	1.792
Apr. 1981	2.265	2.257	1.409	1.400	83.6	108.8	1.907	1.912	1.823	1.803

Fore. = May Forecast
C. E. = Current Expectations

RETAIL SALES

	Retail Sales		Non Auto Durables		Auto (Million Units)		Nondurable Sales		Auto Sales	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
Jan. 1980	79.46	79.46	11.58	11.58	11.6	11.6	52.20	52.20	15.69	15.69
February	78.21	77.99	11.44	11.32	10.5	10.5	51.63	51.62	15.15	15.05
March	77.22	76.53	11.51	10.81	10.1	10.1	51.67	52.24	14.05	13.49
April	76.25	74.77	11.48	10.44	8.3	8.3	51.83	52.07	12.94	12.26
May	75.84	73.66	11.49	10.29	7.8	7.5	52.50	51.94	11.85	11.43
June	76.68	73.68	11.48	10.36	8.2	7.7	53.13	52.16	12.07	11.16
July	76.37	74.49	11.37	10.56	7.8	7.8	53.15	52.66	11.85	11.27
August	76.54	74.69	11.36	10.70	7.7	7.7	53.22	53.09	11.96	10.90
September	76.77	75.15	11.35	10.76	7.9	7.8	53.33	53.41	12.09	10.98
October	77.51	76.30	11.35	10.79	8.0	8.7	53.89	53.78	12.28	11.73
November	78.22	76.78	11.42	10.77	8.0	8.4	54.49	54.46	12.31	11.55
December	79.03	77.85	11.42	11.05	7.8	8.4	55.16	55.01	12.45	11.79
January	79.27	77.81	11.46	11.21	7.8	7.9	55.35	55.42	12.46	11.18
February	79.56	78.09	11.48	11.33	7.8	8.0	55.56	55.31	12.52	11.45
March	79.95	79.07	11.49	11.38	7.9	8.2	55.78	55.68	12.68	12.01
Apr. 1981	80.96	79.34	11.54	11.38	8.2	8.1	56.05	56.03	13.37	11.93

INDUSTRIAL PRODUCTION

	Industrial Production		Capacity Utilization	
	Fore.	C. E.	Fore.	C. E.
Jan. 1980	152.7	152.6	84.1	84.1
February	152.4	152.3	83.9	83.8
March	151.2	152.3	83.0	83.0
April	149.1	148.5	81.6	81.0
May	147.9	146.8	80.6	79.7
June	146.7	145.9	79.6	79.0
July	146.4	145.3	79.1	78.5
August	146.2	144.5	78.7	77.9
September	146.2	143.9	78.5	77.3
October	146.5	143.6	78.4	76.9
November	146.8	143.3	78.3	76.5
December	147.1	143.0	78.2	76.0
January	147.7	143.5	78.2	76.1
February	148.3	143.5	78.3	75.9
March	149.0	143.6	78.4	75.7
Apr. 1981	149.6	144.1	78.6	75.8

Fore. = May Forecast
C. E. = Current Expectations

HOUSING

	Housing Starts		Single Family Starts		Housing Permits		Construction Expenditures (Current)		Construction Expenditures (Real)	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
Jan. 1980	1.419	1.419	1.002	1.002	1.264	1.264	250.0	250.0	120.4	120.4
February	1.332	1.330	0.789	0.786	1.142	1.142	243.1	243.1	115.9	115.9
March	1.041	1.041	0.606	0.615	0.941	0.932	229.0	229.9	109.5	109.8
April	0.959	1.019	0.543	0.625	0.812	0.800	222.8	221.7	105.6	106.9
May	0.930	0.965	0.495	0.580	0.783	0.803	217.5	220.1	102.3	105.3
June	0.913	0.998	0.468	0.613	0.769	0.825	215.9	221.4	100.7	105.0
July	0.978	1.018	0.539	0.617	0.812	0.846	214.2	222.7	99.2	104.9
August	1.099	1.064	0.620	0.643	0.915	0.907	215.5	224.1	99.1	104.7
September	1.127	1.149	0.649	0.706	0.973	0.991	217.8	225.9	99.4	104.7
October	1.186	1.208	0.702	0.746	1.013	1.035	222.3	232.1	100.6	106.7
November	1.215	1.201	0.734	0.733	1.005	1.042	227.9	234.2	102.3	106.8
December	1.306	1.313	0.789	0.844	1.127	1.146	232.6	238.3	103.6	107.7
January	1.397	1.361	0.883	0.879	1.221	1.207	237.4	243.1	104.8	109.0
February	1.495	1.455	0.971	0.959	1.336	1.309	243.1	245.5	106.4	109.1
March	1.582	1.526	1.018	1.026	1.443	1.346	246.9	246.7	107.1	108.7
Apr. 1981	1.632	1.558	1.102	1.052	1.506	1.393	250.9	251.7	107.9	110.0

HOUSING CONTINUED

	Private Non Residential		Public Construction		Residential Construction	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
Jan. 1980	90.9	90.9	59.4	59.4	99.7	99.7
February	89.0	89.0	56.4	56.3	97.7	97.7
March	85.8	86.3	52.6	53.7	89.7	89.8
April	86.5	86.3	53.8	52.3	82.5	83.1
May	86.5	88.6	54.7	53.9	76.3	77.6
June	87.2	89.3	54.7	54.6	74.0	77.3
July	87.7	90.6	54.6	55.1	71.9	77.0
August	88.2	90.2	54.9	55.0	72.4	78.9
September	88.6	89.4	55.3	54.5	73.9	82.0
October	89.0	92.3	55.7	54.2	77.6	85.6
November	89.5	91.6	56.0	54.7	82.4	87.9
December	89.7	93.0	56.5	55.0	86.4	90.3
January	90.1	94.3	57.1	56.6	90.2	92.2
February	90.8	93.1	57.7	56.0	94.6	96.4
March	91.2	91.7	58.0	56.5	97.7	98.5
Apr. 1981	92.0	92.6	58.4	56.9	100.5	102.2

Fore. = May Forecast
C. E. = Current Expectations

BUSINESS ACTIVITY

	Manufacturers Inventories		Durable Goods Orders		Non-defense Capital Goods Orders		Non-defense Capital Shipments	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
Jan. 1980	232.0	232.3	82.03	81.46	23.78	23.85	21.02	20.88
February	234.8	235.1	81.88	81.02	22.09	21.48	21.51	21.40
March	238.1	238.5	79.14	77.54	23.47	22.59	21.82	21.35
April	240.3	242.6	77.53	72.45	22.39	22.18	22.09	20.56
May	241.5	244.3	75.26	70.66	21.95	21.45	21.22	21.00
June	242.3	245.6	73.01	69.91	70.65	20.93	20.67	20.64
July	244.7	247.2	74.47	70.98	21.42	21.62	21.03	21.25
August	246.5	248.3	75.51	72.38	21.89	22.14	21.48	21.85
September	248.2	249.2	77.06	74.43	22.55	22.56	21.85	21.82
October	250.3	250.2	76.82	76.52	22.46	21.76	21.72	21.84
November	252.4	251.5	77.43	75.93	22.75	21.55	21.85	21.32
December	254.0	252.6	79.02	76.85	23.01	23.06	21.95	21.88
January	255.6	254.1	79.92	77.94	23.43	22.96	22.02	22.19
February	256.9	255.7	79.15	78.02	23.21	22.58	22.13	22.09
March	258.1	257.3	80.05	78.41	23.62	22.18	22.25	22.10
Apr. 1981	260.3	258.5	81.18	80.03	23.95	23.01	22.39	21.75

	Business Inventories		Defense Shipments	
	Fore.	C. E.	Fore.	C. E.
Jan. 1980	431.5	431.5	3.19	3.08
February	434.8	435.1	3.24	3.25
March	440.3	437.6	3.30	3.39
April	442.3	442.8	3.43	3.26
May	444.7	445.5	3.38	3.31
June	446.4	447.1	3.35	3.39
July	450.1	449.0	3.40	3.43
August	452.9	451.7	3.45	3.42
September	456.0	453.3	3.49	3.48
October	458.7	455.2	3.54	3.55
November	461.3	457.4	3.60	3.59
December	464.7	459.5	3.66	3.59
January	467.1	461.4	3.70	3.62
February	469.7	463.7	3.73	3.69
March	472.2	466.0	3.77	3.75
Apr. 1981	475.6	467.7	3.82	3.73

Fore. = May Forecast
C. E. = Current Expectations

PRICES

	CPI (unadjusted)		PPI Finished Goods		PPI-Industrial Commodities (unadjusted)		Agricultural Prices (unadjusted)		IVA Corp. (annual rate)	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
Jan. 1980	233.2	233.2	232.1	232.4	260.3	260.6	236	236	62.2	60.1
February	236.4	236.4	235.4	235.4	265.4	265.4	238	238	74.5	64.1
March	239.8	239.8	238.2	238.2	268.2	268.2	234	234	68.1	78.0
April	242.0	242.5	239.4	240.0	269.5	270.7	225	224	49.2	83.8
May	243.7	244.2	241.1	241.0	271.9	271.2	228	226	30.1	73.7
June	245.3	245.7	243.3	242.7	274.3	272.8	232	228	23.1	51.8
July	247.5	247.7	245.7	244.9	277.1	275.4	236	233	29.2	33.3
August	249.6	249.9	247.9	247.3	279.6	279.1	240	236	33.4	32.4
September	251.4	251.9	249.8	249.8	282.2	282.3	239	240	44.8	38.1
October	253.5	254.0	252.0	252.2	285.3	286.8	237	240	45.3	49.4
November	255.6	255.9	254.0	254.5	288.4	288.4	241	245	44.1	45.9
December	257.7	257.8	256.2	256.5	291.1	290.1	245	250	42.3	53.5
January	259.8	259.9	258.3	258.7	293.2	293.6	250	256	37.2	45.3
February	261.9	261.5	260.5	260.2	294.6	294.3	253	253	34.2	39.4
March	264.0	263.5	262.7	262.1	296.1	295.7	252	255	37.4	35.3
Apr. 1981	266.1	265.3	264.8	264.0	298.5	298.6	255	259	38.9	32.2

MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators		Estimated GNP		Estimated GNP (1972 $)		Estimated GNP Deflator	
	Fore.	C. E.	Fore	C. E.	Fore	C. E.	Fore	C. E.	Fore.	C. E.
Jan. 1980	-3597	-3597	135.2	135.9	2514	2514	1452	1452	1.7309	1.7316
February	-4407	-4407	134.8	135.4	2520	2512	1444	1441	1.7451	1.7435
March	-2080	-2073	131.3	132.6	2527	2524	1436	1436	1.7593	1.7575
April	-2675	-840	129.2	126.3	2514	2517	1420	1419	1.7699	1.7737
May	-2908	-1665	127.7	124.9	2520	2511	1416	1406	1.7800	1.7855
June	-3242	-2047	126.5	125.1	2526	2518	1410	1399	1.7917	1.7994
July	-2965	-2972	126.8	125.6	2543	2534	1409	1397	1.8048	1.8135
August	-2802	-3145	127.1	127.3	2560	2560	1409	1400	1.8175	1.8291
September	-2775	-2795	126.6	126.7	2578	2572	1408	1396	1.8311	1.8429
October	-2695	-2667	127.3	126.1	2593	2596	1402	1395	1.8494	1.8605
November	-2638	-2655	127.5	127.8	2608	2614	1405	1396	1.8557	1.8721
December	-2543	-2608	126.6	129.1	2632	2632	1407	1394	1.8701	1.8877
January	-2453	-2773	127.1	131.1	2655	2653	1409	1396	1.8839	1.9007
February	-2379	-2661	127.8	132.0	2687	2678	1414	1399	1.9009	1.9146
March	-2295	-2599	128.9	131.3	2715	2703	1418	1400	1.9146	1.9303
Apr. 1981	-2162	-2731	129.9	132.0	2743	2715	1422	1397	1.9288	1.9431

FINANCIAL MARKETS

	Monetary Base		M1-B		M2		Federal Funds		T-Bills (6 Mos.)	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
Jan. 1980	154.9	154.9	389.1	389.0	1532.8	1532.8	13.82	13.82	11.84	11.84
February	156.1	156.1	392.9	392.9	1546.6	1546.2	14.13	14.13	12.86	12.86
March	157.0	157.0	392.3	392.3	1550.9	1550.2	17.19	17.19	15.03	15.03
April	157.4	157.4	389.7	387.5	1550.7	1546.8	18.59	18.59	13.62	13.62
May	158.0	158.0	389.5	387.8	1551.2	1550.9	10.41	11.82	9.38	9.15
June	158.6	158.9	391.1	390.3	1554.1	1556.1	8.68	8.97	8.35	7.16
July	159.4	159.7	394.3	393.9	1568.9	1565.3	9.11	9.46	8.89	7.65
August	160.3	160.5	396.8	395.4	1587.7	1580.0	9.65	9.91	9.16	8.12
September	161.1	161.1	398.9	397.6	1599.4	1591.3	9.85	9.42	9.41	7.63
October	161.9	161.9	401.4	400.2	1613.6	1608.4	9.43	9.12	9.12	7.41
November	162.7	162.7	404.7	402.9	1627.1	1621.1	9.08	8.78	9.03	7.29
December	163.6	163.6	406.8	405.3	1641.1	1634.3	8.76	8.52	8.92	6.89
January	164.4	164.4	408.5	407.8	1656.8	1650.2	8.15	8.12	8.67	6.77
February	165.3	165.3	410.2	409.9	1669.3	1663.1	8.42	7.96	8.46	7.03
March	166.2	166.2	411.9	411.7	1681.2	1676.5	8.82	8.10	8.50	7.18
Apr. 1981	167.0	167.0	413.3	413.4	1694.1	1688.9	8.79	8.46	8.36	7.42

	Aaa (Seasoned)		Municipals		Commercial Paper		90 Day CD'S		Prime Rate	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
Jan. 1980	11.09	11.09	7.35	7.35	13.04	13.04	13.39	13.39	15.25	15.25
February	12.38	12.38	8.16	8.16	13.78	13.78	14.30	14.30	15.63	15.63
March	12.96	12.96	9.17	9.17	16.81	16.81	17.57	17.57	18.31	18.31
April	12.22	12.04	8.63	8.63	17.43	16.20	18.09	16.78	19.27	19.77
May	10.27	11.04	7.19	7.59	9.76	9.73	9.97	10.13	15.73	17.20
June	9.34	10.95	6.54	7.76	8.46	8.15	8.69	8.55	12.49	13.15
July	9.78	11.16	6.75	7.81	9.23	8.66	9.55	8.97	11.89	11.79
August	10.15	11.39	6.81	7.92	9.79	9.05	10.11	9.37	11.75	11.50
September	10.29	11.01	7.10	7.60	10.02	9.01	10.35	9.15	11.75	11.50
October	10.15	10.82	7.00	7.36	9.37	8.51	9.52	8.92	11.55	11.33
November	10.01	10.41	6.86	7.03	8.86	8.32	9.14	8.69	11.36	10.95
December	9.97	10.16	6.78	6.83	8.55	8.07	8.73	8.43	10.92	10.67
January	9.82	9.97	6.68	6.78	7.96	7.67	8.16	7.92	10.63	10.42
February	9.59	9.91	6.47	6.69	8.55	7.48	8.96	7.79	10.50	10.29
March	9.55	9.85	6.49	6.55	9.03	7.79	9.37	7.99	10.50	10.00
Apr. 1981	9.41	9.93	6/43	6.60	9.01	7.96	9.26	8.31	10.50	10.00

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MONTHLY PROJECTIONS
FOR JULY

CONSUMER ACTIVITY IMPROVED IN JUNE AND EARLY JULY

According to preliminary information contained in the personal income report for June, personal outlays grew by 1% in the month. As commodity prices almost certainly grew by less than 0.7%, this constitutes the first significant increase in real consumer activity since the beginning of the year. While the improvement in retail activity was widespread, much of the gain in nonauto durables probably reflects the reappearance of inflation in jewelry related materials. However, auto sales and purchases of nondurable goods apparently rose after adjustment for inflation. Sales figures during the first ten days of July indicate that further improvement is developing in auto purchases.

Some economists are hailing these changes as the end of the consumer correction. However, such an assessment appears to be premature. First, much of the improvement in auto sales appears to be caused by incentive programs. When these incentives end, some backsliding in auto sales probably will develop. Second, the dismantling of credit restraints, which began on May 22 and will end in the month of July, probably restored some credit purchases. This is a one time upward movement in consumer sales. Third, substantial increases in social security disbursements during July may have been partially anticipated in June. While this fiscal stimulus undoubtedly will strengthen consumer activity , it, too, is a nonrecurring stimulus. Finally, at $78 billion, the June personal savings level remains below the accumulation of pension and insurance reserves. It is unlikely that the consumer correction will end before discretionary savings are positive(a rate above 5%). Therefore, further weakenss in consumer activity is anticipated late in the summer and during the early fall.

It is clear, however, that production of domestic automobiles probably has made a gradual upswing from its 5.5 million production level during May. Also, housing starts undoubtedly have turned from their low point of 913,000 during May. Thus, the two industries accounting for much of the early weakness in this recession are beginning to recover.

Changes in GNP

	% Change 1980-1	% Change 1980-2	% Change 1980-3	% Change 1980-4	% Change 1981-1	% Change 1981-2
Real Output	+1.2	-9.1	-4.4	-0.4	+1.2	+3.5
Price Deflator	9.5	10.4	8.9	10.1	9.4	8.8
Nominal GNP	10.7	0.1	4.2	9.7	10.6	12.7

Monthly Highlights
June 1980

Construction expenditures, +1.2%; manufacturer's inventory,+0.2%; durable goods orders,+3.9%; orders for nondefense capital goods,+8.1%; business inventories, +0.8%; merchandise trade balance, -$2.54 billion; leading indicators,+1.1%.

Monthly Highlights
July 1980

Payroll employment, -262,000; hours worked, -0.5%; unemployment rate, 7.9%; personal income, +1.2%; personal outlays, +0.8%; auto sales, 8.5 million; retail sales, +1.1%; industrial productions, -0.6%; housing starts, +1.0%; housing permits, -4.9%; construction expenditures, +3.9%; orders for durable goods, +2.7%; order for nondefense capital goods, -2.1%; business inventories, +0.1%; CPI, +0.5%; PPI, +0.9%; agricultural prices, +3.0%, merchandise trade balances, -$2.74 billion, leading indicators, +0.6%; M1-B, +9.3%; M2, +13.2%.

COMMENTARY

Employment

Payroll employment showed its largest monthly decline of this downturn in June, falling 514,000. Declines in goods producing activity were comparable to previous months, but declines occurred in service oriented activity as well. Federal payrolls remain almost 200,000 above pre-census levels and almost certainly will be reduced in subsequent months. Estimates of household employment declined by 450,000. As expected, a significant portion of the decline was recorded in the teenage population, where an early reference week clearly distorted the indicators. This also explains the decline in the unemployment rate. According to the preliminary June report, the index of hours worked during the second quarter declined by 9.7%. The preliminary GNP estimates for the second quarter reveal a 9.1% decline for the entire economy. Thus, very little loss in productivity occurred despite the dramatic drop in economic activity.

Aside from the unemployment rate, the employment situation for June was not good. Not only were job losses the largest for any single month since this recession began, but the hourly earnings index continued to accelerate.

Currently, the index stands 9.4% above previous year levels. Thus, unit labor costs may be rising above anticipations even as productivity appears to be performing slightly more favorably than had been expected during the down phase of this business cycle. Finally, the continuous decline in the workweek as well as in overall payrolls strongly suggests that further reductions in payroll employment will occur in July.

Personal Income and Outlays

Wage and salary income and overall personal income were revised upward slightly for April and May. The personal savings rate approached 5% in May before retreating to a 4.4% rate in June. As explained above, this appears to be an interim pause in the consumer movement toward improving financial liquidity. Further modest gains in personal savings are anticipated late in the summer and in the early fall.

Retail Sales

Retail sales were revised upward in May and showed a healthy 1.5% gain in June. Most of the adjustment occurred in auto sales. Indeed, dollar values of sales in May seem to be unrelated to announced unit sales during that month. Possibly, some downward adjustment may be forthcoming in auto sales receipts when more reliable data is available. Increases in nonauto durables appear to reflect a re-acceleration of prices for precious metals rather than any substantial change in the downtrend for household appliances. The social security disbursements in July almost certainly should encourage further improvement in nondurable goods sales. In addition, jewelry inflation should cause another significant increase in the value of nonauto durables. Finally, initial sales figures show that incentive programs are beginning to encourage sales of automobiles. We continue to anticipate good fleet acceptance of the new models in October and November. Our projections show further weakness in auto sales in 1981. However, savings rates may be sufficiently high at that time to suggest that some further improvement in auto activity beyond those incorporated in the projections are possible early in the year, especially if a significant personal income tax cut is enacted.

Construction

The 30% increase in housing starts and 28% increase in housing permits was surprisingly strong for the month of June. Indeed, a larger proportion of the adjustment was contained in multi-family units then had been anticipated. Some of these projects probably reflect previously issued permits that were delayed. As a result, some pause in the upward movement of multi-family housing starts probably should be anticipated in the months ahead. In addition, the unusually hot weather probably is impacting construction activity in the important Texas market. Nevertheless, recovery has begun in housing activity. Morever, strong increases in housing sales in May suggest that further modest increases in single family starts can be expected for the remainder of this year.

Our method of allocating construction expenditures shows a very abrupt increase in the value of residential construction. Quarterly data do not confirm that expenditures should respond as rapidly as the monthly format suggests. Therefore, the value of construction expenditures may not begin to increase until later in the third quarter.

Public construction probably will remain depressed, as highway activity is the primary cause of the continuing weakness. This reduced highway activity reflects both the ending of interstate activity in many states and the depletion of highway trust funds in certain states. According to the F.W. Dodge reports, nonresidential construction may grow even more slowly than anticipated in our monthly projections. Certainly, there has been little growth in this category since the first of this year. Also, the index of hours worked in construction shows a larger decline in June than in May. Thus, the estimated improvement after adjustment for inflation probably is not appropriate. If the data suggest that our techniques are overestimating near-term construction activity adjustments will be made and reported in subsequent Projections.

Business Activity

The surprising decline in business inventories in May, even as retail sales were declining cannot be fully explained. Indeed, our techniques for estimating changes in GNP would suggest that economic weakness in May greatly exceeded economic weakness in April despite more rapid reductions in hours worked in the earlier month. Thus, some errors in estimating business inventories by the Department of Commerce may be developing at the present time. The other noteworthy development in business activity is the dramatic decline in orders for durable goods. Of course, auto shipments account for some of this weakness. As a result, durable goods orders should increase in June and July, when auto shipments begin to rise. However, a decline in orders for materials has been unusually vigorous. Some rebound in nondefense capital goods orders is anticipated in June, as the dramatic dropoff in May was largely the result of reduced aircraft orders. However, the capital goods industry appears to have joined other industries in recession. Moreover, it is expected to remain weak for the remainder of this year. Indeed, this weakness in orders and shipments of durable goods belies anticipations by some that a rapid recovery soon will commence.

Prices

The heat wave and drought has led to a significant increase in estimates of agricultural prices during the next few months. In July, for example, agricultural prices now appear to be rising by 3%. Fortunately, sufficient weakness is developing in the energy components to prevent this dramatic increase in food costs from sharply altering the anticipated pattern for finished goods prices or for the consumer price index. Indeed, the July consumer price index may show a very favorable 0.5%-0.6% rate of change even as the producers' price index probably will move into double digit ranges. It is noteworthy, however, that current anticipations of inflationary pressures remain slightly below the inflation forecast that was contained in the May outlook.

According to our estimates, nearly all the economic weakness that will be recorded during this recession already has occurred. By June, estimated real GNP already had fallen 3.5% from the January peak. However, a secondary adjustment in consumer activity and reduced government support for economic activity is expected to cause a prolonged development of a bottom. Our estimates suggest that the trough will be established sometime between November and January. A reasonably brisk, but not overly exciting, recovery then should develop.

Financial Markets

Both short-term and long-term interest rates moved upward late in June and early in July. While not unexpected, the upward movement of interest rates was slightly earlier than the summer bounce we anticipated. The reason for this early rebound is not totally obvious. First, monetary policy moved decidely easier following two months of extremely restrictive activity. In June, M1-B grew at a 16% annual rate while M2 increased at an 18.8% annual rate. Even the monetary base grew 10.3%. Moreover, rapid increases in the monetary base early in July suggest that rapid gains should continue in the monetary aggregates during the summer. Rising interest rates and rising growth rates in the monetary aggregates normally would suggest a substantial increase in economic activity. While retail sales definitely improved in June, most monthly indicators suggest no substantial improvement developed in economic activity. Thus, the rapid apparent deterioration in the velocity of money during June must remain a mystery at this time. In August, however, economic activity should be sufficiently brisk and the inflationary outlook should be sufficiently discouraging to cause further upward movement in interest rates. A substantial rise is not expected, but 90 day CDs could approach 10% for a brief period of time. Renewed gains in bond prices are expected during the fall, but single digit rates for triple A bonds no longer appear to be likely.

Stock Market

According to one theory of the stock market that we use extensively, if a strong technical barrier is breached then the fundamentals must justify that move. We had thought that the sharp decline in economic activity would erode earnings so appreciably that fundamentals would not be sufficient to justify a significant increase in equity prices. It now appears, however, that productivity did not decline in the second quarter. Thus, operating profits appear to have fallen less sharply than economic activity. Our estimates of corporate earnings, therefore, are too low. Given the dramatic decrease in interest rates and improvement in the quality of earnings, this upward adjustment in the estimate of earnings leads to an upward adjustment in the estimated value of stock prices. When this factor is added to the anticipation that bonds have become significantly more risky investment instruments relative to stocks, it now appears that little correction from the rapid upward movement of equity values should be anticipated. A correction in stock prices may develop in the fall, but this adjustment probably will come from price levels that are higher than currently exist in the market place. Indeed, 1,000 may prove to be the next formidable resistance point.

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Employment		Unemployment Rate		Hourly Earnings Index	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
Feb. 1980	90845	91186	126.8	126.9	97953	97953	6.0	6.0	242.6	242.5
March	90799	91144	126.1	126.0	97656	97656	6.2	6.2	245.1	245.3
April	90320	90951	124.5	124.8	97154	97154	7.0	7.0	245.6	246.2
May	90047	90602	124.4	123.4	96893	96988	7.5	7.8	247.8	248.2
June	89774	90088	124.3	122.2	96632	96537	7.5	7.7	249.8	250.7
July	89808	89826	124.2	121.6	96743	96518	7.6	7.9	251.1	252.4
August	89830	89753	124.1	121.2	96854	96465	7.7	8.1	252.4	254.0
September	89840	89725	124.1	121.1	96925	96543	7.8	8.3	254.1	255.9
October	89855	89730	124.1	121.2	96983	96472	7.9	8.5	255.8	258.0
November	89866	89782	124.1	121.3	97018	96539	8.1	8.6	257.2	259.9
December	89935	89816	124.3	121.3	97121	96562	8.3	8.8	258.9	261.6
January	90009	89911	124.4	121.6	97234	96671	8.3	8.9	260.5	263.0
February	90103	90112	124.6	122.1	97332	96914	8.3	8.8	262.4	264.9
March	90196	90105	124.8	122.2	97425	96992	8.2	8.9	263.9	267.0
April	90285	90219	125.0	122.4	97553	97012	8.3	9.1	265.5	268.8
May	90381	90318	125.2	122.9	97682	97163	8.3	9.1	267.1	270.6

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
Feb. 1980	2.054	2.056	1.301	1.304	58.0	66.7	1.735	1.736	1.677	1.669
March	2.069	2.070	1.310	1.314	59.8	67.3	1.747	1.748	1.687	1.681
April	2.067	2.072	1.303	1.309	62.4	81.4	1.746	1.750	1.683	1.668
May	2.075	2.078	1.307	1.309	58.6	89.0	1.750	1.753	1.692	1.664
June	2.082	2.086	1.312	1.310	53.8	78.1	1.754	1.759	1.701	1.681
July	2.115	2.110	1.320	1.312	77.1	87.3	1.788	1.782	1.711	1.695
August	2.133	2.122	1.327	1.315	78.7	89.2	1.789	1.792	1.719	1.703
September	2.150	2.137	1.335	1.323	80.3	94.2	1.807	1.803	1.727	1.709
October	2.169	2.157	1.350	1.337	80.6	94.0	1.822	1.820	1.742	1.726
November	2.185	2.175	1.358	1.347	79.7	101.0	1.837	1.835	1.757	1.734
December	2.202	2.193	1.365	1.355	81.3	99.3	1.850	1.850	1.769	1.751
January	2.212	2.204	1.377	1.365	84.6	109.6	1.867	1.874	1.782	1.764
February	2.229	2.230	1.387	1.381	87.2	109.7	1.881	1.895	1.794	1.785
March	2.247	2.247	1.398	1.391	89.4	109.3	1.895	1.910	1.806	1.800
April	2.265	2.267	1.409	1.403	83.6	111.2	1.907	1.927	1.823	1.816
May	2.283	2.290	1.421	1.417	80.8	113.2	1.922	1.946	1.842	1.832

Fore. = May Forecast

C. E. = Current Expectations

RETAIL SALES

	Retail Sales		Non Auto Durables		Auto (Million Units)		Nondurable Sales		Auto Sales	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
Feb. 1980	78.21	77.99	11.44	11.32	10.5	10.5	51.63	51.62	15.15	15.05
March	77.22	76.53	11.51	10.81	10.1	10.1	51.67	52.24	14.05	13.49
April	76.25	75.01	11.48	10.57	8.3	8.3	51.83	52.19	12.94	12.25
May	75.84	74.27	11.49	10.48	7.8	7.4	52.50	51.73	11.85	12.05
June	76.68	75.35	11.48	10.58	8.2	7.6	53.13	52.25	12.07	12.52
July	76.37	76.21	11.37	10.74	7.8	8.5	53.15	52.55	11.85	12.92
August	76.54	76.37	11.36	10.66	7.7	8.3	53.22	52.94	11.96	12.77
September	76.77	76.40	11.35	10.71	7.9	8.0	53.33	53.29	12.09	12.40
October	77.51	77.49	11.35	10.75	8.0	8.6	53.89	53.82	12.28	12.92
November	78.22	77.56	11.42	10.87	8.0	8.4	54.49	53.91	12.31	12.78
December	79.03	78.41	11.42	10.95	7.8	8.5	55.16	54.53	12.45	12.93
January	79.27	78.89	11.46	11.11	7.8	8.0	55.35	55.06	12.46	12.72
February	79.56	80.07	11.48	11.32	7.8	8.3	55.56	55.49	12.52	13.26
March	79.95	80.77	11.49	11.41	7.9	8.4	55.78	50.87	12.68	13.49
April	80.96	81.61	11.54	11.50	8.2	8.5	56.05	56.32	13.37	13.79
May	82.11	82.41	11.65	11.56	8.3	8.6	57.05	56.79	13.41	14.06

INDUSTRIAL PRODUCTION

	Industrial Production		Capacity Utilization	
	Fore.	C. E.	Fore.	C. E.
Feb. 1980	152.4	152.3	83.9	83.8
March	151.2	151.4	83.0	82.6
April	149.1	148.2	81.6	80.7
May	147.9	144.7	80.6	78.3
June	146.7	141.2	79.6	76.1
July	146.4	140.3	79.1	75.2
August	146.2	140.1	78.7	74.8
September	146.2	139.8	78.5	74.4
October	146.5	139.6	78.4	74.2
November	146.8	139.8	78.3	74.2
December	147.1	140.3	78.2	74.4
January	147.7	140.8	78.2	74.6
February	148.3	141.3	78.3	74.8
March	149.0	141.8	78.4	75.0
April	149.6	142.2	78.6	75.1
May	150.3	143.6	78.9	75.8

Fore. = May Forecast

C. E. = Current Expectations

HOUSING

	Housing Starts		Single Family Starts		Housing Permits		Construction Expenditures (Current)		Construction Expenditures (Real)	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
Feb. 1980	1.332	1.330	0.789	0.786	1.142	1.142	243.1	248.8	115.9	115.5
March	1.041	1.041	0.606	0.617	0.941	0.968	229.0	237.1	109.5	109.8
April	0.959	1.030	0.543	0.628	0.812	0.789	222.8	226.6	105.6	105.9
May	0.930	0.913	0.495	0.628	0.783	0.825	217.5	218.5	102.3	101.5
June	0.913	1.191	0.468	0.747	0.769	1.059	215.9	221.1	100.7	102.0
July	0.978	1.203	0.539	0.758	0.812	1.007	214.2	229.8	99.2	105.4
August	1.099	1.266	0.620	0.803	0.915	1.047	215.5	230.8	99.1	105.1
September	1.127	1.286	0.649	0.825	0.973	1.099	217.8	233.4	99.4	105.6
October	1.186	1.311	0.702	0.856	1.013	1.126	222.3	233.7	100.6	104.9
November	1.215	1.408	0.734	0.946	1.005	1.193	227.9	238.1	102.3	106.1
December	1.306	1.437	0.789	0.963	1.127	1.242	232.6	241.2	103.6	106.6
January	1.397	1.418	0.883	0.079	1.221	1.216	237.4	243.5	104.8	106.8
February	1.495	1.503	0.971	1.026	1.336	1.294	243.1	245.4	106.4	106.7
March	1.582	1.579	1.018	1.091	1.443	1.346	246.9	250.2	107.1	107.8
April	1.632	1.608	1.102	1.116	1.506	1.392	250.9	254.2	107.9	108.6
May 1981	1.711	1.661	1.165	1.129	1.496	1.442	254.7	256.6	108.7	108.6

HOUSING CONTINUED

	Private Non Residential		Public Construction		Residential Construction	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
Feb. 1980	89.0	90.2	56.4	57.0	97.7	101.5
March	85.8	86.6	52.6	56.5	89.7	94.0
April	86.5	87.9	53.8	54.2	82.5	84.5
May	85.5	87.3	54.7	52.8	76.3	78.4
June	87.2	87.5	54.7	52.2	74.0	81.4
July	87.7	88.0	54.6	52.5	71.9	89.3
August	88.2	88.6	54.9	53.1	72.4	89.1
September	88.6	90.1	55.3	53.6	73.9	89.7
October	89.0	90.0	55.7	54.0	77.6	89.7
November	89.5	91.2	56.0	54.4	82.4	92.5
December	89.7	90.6	56.5	55.0	86.4	95.6
January	90.1	92.5	57.1	55.9	90.2	95.1
February	90.8	93.0	57.7	55.3	94.6	97.1
March	91.2	92.6	58.0	55.7	97.7	101.9
April	92.0	93.0	58.4	56.0	100.5	105.2
May 1981	92.8	93.4	58.8	55.5	103.1	107.7

Fore. = May Forecast

C. E. = Current Expectations

BUSINESS ACTIVITY

	Manufacturers Inventories		Durable Goods Orders		Non-defense Capital Goods Orders		Non-defense Capital Shipments	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
Feb. 1980	234.8	235.1	81.88	81.02	22.09	21.48	21.51	21.40
March	238.1	238.5	79.14	77.55	23.47	22.59	21.82	21.35
April	240.3	242.5	77.53	72.22	22.39	22.16	22.09	20.63
May	241.5	243.1	75.26	67.43	21.95	20.14	21.22	20.98
June	242.3	243.5	73.01	70.05	70.65	21.77	20.67	20.76
July	244.7	244.0	74.47	71.95	21.42	21.32	21.03	20.93
August	246.5	244.9	75.51	71.24	21.89	21.07	21.48	21.02
September	248.2	246.3	77.06	72.46	22.55	22.16	21.85	21.26
October	250.3	247.6	76.82	74.68	22.46	22.43	21.72	21.42
November	252.4	248.5	77.43	75.14	22.75	21.92	21.85	21.53
December	254.0	249.4	79.02	76.98	23.01	21.86	21.95	21.58
January	255.6	250.6	79.92	76.49	23.43	22.59	22.02	21.81
February	256.9	251.9	79.15	78.15	23.21	22.46	22.13	22.01
March	258.1	253.5	80.05	79.92	23.62	23.13	22.25	22.19
April	260.3	255.4	81.18	80.43	23.95	23.07	22.39	22.08
May 1981	262.5	257.4	82.36	82.09	24.27	23.41	22.54	22.16

	Business Inventories		Defense Shipments	
	Fore.	C. E.	Fore.	C. E.
Feb. 1980	434.8	435.3	3.24	3.25
March	440.3	439.3	3.30	3.39
April	442.3	445.5	3.43	3.29
May	444.7	445.1	3.38	3.43
June	446.4	446.0	3.35	3.40
July	450.1	446.4	3.40	3.46
August	452.9	448.8	3.45	3.49
September	456.0	451.1	3.49	3.53
October	458.7	452.8	3.54	3.58
November	461.3	454.7	3.60	3.62
December	464.7	456.8	3.66	3.65
January	464.1	459.0	3.70	3.69
February	469.7	461.3	3.73	3.73
March	472.2	463.7	3.77	3.76
April	475.6	466.2	3.82	3.81
May 1981	478.9	468.6	3.87	3.85

Fore. = May Forecast

C. E. = Current Expectations

PRICES

	CPI (unadjusted)		PPI Finished Goods		PPI-Industrial Communities (unadjusted)		Agricultural Prices (unadjusted)		IVA Corp. (annual rate)	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
Feb. 1980	236.4	236.4	235.4	235.4	265.4	265.4	238	238	74.5	64.1
March	239.8	239.8	238.2	238.2	268.2	268.2	234	234	68.1	78.0
April	242.0	242.5	239.4	240.0	269.5	270.7	225	224	49.2	83.8
May	243.7	244.9	241.1	241.0	271.9	271.2	228	227	30.1	74.5
June	245.3	246.5	243.3	242.6	274.3	273.0	232	230	23.1	54.7
July	247.5	247.9	245.7	244.8	277.1	275.5	236	237	29.2	34.7
August	249.6	249.5	247.9	247.0	279.6	278.3	240	241	33.4	28.8
September	251.4	251.5	249.8	249.3	282.2	281.9	239	245	44.8	36.4
October	253.5	253.6	252.0	251.3	285.3	285.8	237	245	45.3	45.9
November	255.6	255.6	254.0	253.5	288.4	288.0	241	249	44.1	43.1
December	257.7	257.7	256.2	255.3	291.1	289.7	245	253	42.3	50.6
January	259.8	259.8	258.3	257.5	293.2	292.3	250	257	37.2	41.1
February	261.9	261.6	260.5	259.7	294.6	293.9	253	256	34.2	37.8
March	264.0	263.5	262.7	261.8	296.1	295.0	252	258	37.4	34.2
April	266.1	265.4	264.8	263.9	298.5	297.6	255	263	38.9	31.1
May 1981	268.1	267.5	266.8	266.0	300.7	299.4	258	267	40.3	38.6

MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators		Estimated GNP		Estimated GNP (1972 $)		Estimated GNP Deflator	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
Feb. 1980	-4407	-4407	134.8	135.1	2520	2519	1444	1445	1.7451	1.7435
March	-2080	-2073	131.3	131.8	2527	2528	1436	1438	1.7593	1.7575
April	-2675	-840	129.2	126.4	2514	2524	1420	1421	1.7699	1.7757
May	-2908	-2900	127.7	123.4	2520	2521	1416	1410	1.7800	1.7879
June	-3242	-2536	126.5	124.4	2526	2525	1400	1401	1.7917	1.8021
July	-2965	-2743	126.8	125.1	2543	2532	1409	1395	1.8048	1.8145
August	-2802	-2561	127.1	125.7	2560	2552	1409	1397	1.8175	1.8263
September	-2775	-2423	126.6	126.7	2578	2564	1408	1393	1.8311	1.8406
October	-2695	-2229	127.3	128.1	2593	2592	1402	1395	1.8494	1.8574
November	-2638	-2415	127.5	129.7	2608	2606	1405	1393	1.8557	1.8703
December	-2543	-2337	126.6	129.3	2632	2628	1407	1393	1.8701	1.8867
January	-2453	-2552	127.1	130.6	2655	2644	1409	1393	1.8839	1.8986
February	-2379	-2782	127.8	131.5	2687	2676	1414	1398	1.9009	1.9145
March	-2295	-2669	128.9	131.2	2715	2706	1418	1403	1.9146	1.9294
April	-2162	-2582	129.9	131.6	2743	2731	1422	1406	1.9288	1.9422
May 1981	-2416	-7541	131.1	132.3	2767	2756	1426	1410	1.9407	1.9551

Fore. = May Forecast

C. E. = Current Expectations

FINANCIAL MARKETS

	Monetary Base		M1-B		M2		Federal Funds		T-Bills (6 Mos.)	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
Feb. 1980	156.1	156.1	392.9	391.3	1546.6	1546.7	14.13	14.13	12.86	12.86
March	157.0	157.0	392.3	391.2	1550.9	1552.7	17.19	17.19	15.03	15.03
April	157.4	157.4	389.7	386.6	1550.7	1550.1	18.59	17.61	13.62	12.88
May	158.0	158.0	389.5	386.1	1551.2	1561.1	10.41	10.98	9.38	8.65
June	158.6	159.3	391.1	390.9	1554.1	1583.7	8.68	9.47	8.35	7.30
July	159.4	160.4	394.3	393.8	1568.9	1600.2	9.11	9.35	8.89	8.29
August	160.3	161.3	396.8	396.0	1587.7	1613.9	9.65	9.63	9.16	8.46
September	161.1	162.0	398.9	398.0	1599.4	1626.9	9.85	9.23	9.41	8.32
October	161.9	162.9	401.4	400.7	1613.6	1642.8	9.43	9.02	9.12	7.93
November	162.7	163.6	404.7	404.1	1627.1	1661.7	9.08	8.68	9.03	7.76
December	163.6	164.3	406.8	405.8	1641.1	1672.0	8.76	8.49	8.92	7.59
January	164.4	165.0	408.5	407.2	1656.8	1682.8	8.15	8.21	8.67	7.41
February	165.3	165.8	410.2	409.5	1669.3	1697.3	8.42	8.32	8.46	7.40
March	166.2	166.6	411.9	411.5	1681.2	1709.0	8.82	8.57	8.50	7.66
April	167.2	167.3	413.3	414.9	1694.1	1726.6	8.79	8.91	8.36	7.89
May 1981	167.9	168.0	415.4	416.6	1711.1	1737.1	9.16	9.16	8.67	8.15

	Aaa (Seasoned)		Municipals		Commercial Paper		90 Day CD'S		Prime Rate	
	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.	Fore.	C. E.
Feb. 1980	12.38	12.38	8.16	8.16	13.78	13.78	14.30	14.30	15.63	15.63
March	12.96	12.96	9.17	9.17	16.81	16.81	17.57	17.57	18.31	18.31
April	12.22	12.04	8.63	8.63	17.43	15.78	18.09	16.14	19.27	19.77
May	10.27	10.99	7.19	7.59	9.76	9.49	9.97	9.79	15.73	16.57
June	9.34	10.58	6.54	7.63	8.46	8.27	8.69	8.49	12.49	12.93
July	9.78	10.96	6.75	7.85	9.23	8.46	9.55	8.76	11.89	11.46
August	10.15	11.23	6.81	7.97	9.79	8.69	10.11	9.15	11.75	10.93
September	10.29	11.03	7.10	7.78	10.02	8.43	10.35	8.89	11.75	10.65
October	10.15	10.95	7.00	7.70	9.37	8.37	9.52	8.78	11.55	10.50
November	10.01	10.73	6.86	7.51	8.86	8.21	9.14	8.71	11.36	10.42
December	9.97	10.44	6.78	7.41	8.55	7.79	8.73	8.42	10.92	10.25
January	9.82	10.16	6.68	7.13	7.96	7.82	8.16	8.36	10.63	10.25
February	9.59	10.21	6.47	7.10	8.55	7.85	8.96	8.41	10.50	10.25
March	9.55	10.42	6.49	7.24	9.03	8.07	9.37	8.55	10.50	10.36
April	9.41	10.41	6.43	7.18	9.01	8.46	9.26	8.89	10.50	10.50
May 1981	9.91	10.66	6.59	7.33	9.47	8.73	9.71	9.15	10.87	10.68

Fore. = May Forecast

C. E. = Current Expectations